











SOVIET POLICY IN PUBLIC FINANCE  
1917–1928

**Published under the auspices of the  
Committee on Russian Research  
of the Hoover War Library**

# Soviet Policy In Public Finance

1917 – 1928

*By*

GREGORY Y. SOKOLNIKOV & ASSOCIATES

*Translated by*

ELENA VARNECK

*Edited by*

LINCOLN HUTCHINSON

& CARL C. PLEHN

1931

STANFORD UNIVERSITY PRESS  
STANFORD UNIVERSITY, CALIFORNIA

LONDON: HUMPHREY MILFORD  
OXFORD UNIVERSITY PRESS

STANFORD UNIVERSITY PRESS  
STANFORD UNIVERSITY, CALIFORNIA

LONDON: HUMPHREY MILFORD  
OXFORD UNIVERSITY PRESS

THE BAKER & TAYLOR COMPANY  
55 FIFTH AVENUE, NEW YORK

MARTINUS NIJHOFF  
9 LANGE VOORHOUT, THE HAGUE

THE MARUZEN COMPANY  
TOKYO, OSAKA, KYOTO, SENDAI

COPYRIGHT 1931 BY THE BOARD OF TRUSTEES  
OF THE LELAND STANFORD JUNIOR UNIVERSITY

PRINTED AND BOUND IN THE UNITED STATES  
OF AMERICA BY STANFORD UNIVERSITY PRESS

Checked 1969

R.10. No 00038946

Published under the Auspices of the Committee on Russian Research  
of the Hoover War Library

## EDITORS' PREFACE

The editors feel that a word of explanation is due the reader regarding the genesis of this volume on Soviet policy in public finance.

The late Professor Frank A. Golder, after long and intimate acquaintance with Russian affairs, was convinced of the value to the world of an investigation of what has been going on in that country since the Revolution of 1917. He saw that the new rulers were trying there a laboratory test of many radical and liberal theories which had been formulated in various parts of the world in the course of several centuries past. Yet the news of events there current which trickled out into non-Russian lands was inadequate to enable outside observers to form any reliable judgment as to the progress of the experiment. Such reports as came seemed colored, one way or another, by the violent emotions aroused by the tragic events which accompanied the overthrow of the old régime. Professor Golder felt that the present generation owed it to future historians, economists, and administrators to preserve the objective data of the experiment.

With this thought in mind, there was organized in the United States, under Dr. Golder's leadership, a small group whose hope it was to make a non-emotional, non-political study of the evolution of Soviet policy from 1917 on. Their aim was to attempt to give to the world a true picture of exactly what the Russian leaders have tried to do; precisely how they have gone about it; the sort of difficulties they have encountered; the causes of success in those cases in which their schemes have stood the test of experience; the reasons for failure when their plans have gone astray—in short a detailed objective report on the precise actions and reactions of the multitudinous elements and reagents which were thrown into the revolutionary pot.

For any hope of success in so ambitious a scheme of investigation two things stood out as prime requisites: first, a willingness on the part of the Soviet government that such an investigation should be made, and its assistance in procuring, or at least its acquiescence in our procuring, the necessary data; and, second, the co-operation and collaboration of Russian scholars, scientists, and administrators who had lived through the period of revolution and were in position to know and analyze the data.

Professor Golder and the writer, and later Mr. H. H. Fisher of Stanford University, carried on a series of negotiations with the authorities in Moscow which at first met with reasonable success. The Soviet authorities showed pride in what they were accomplishing, and expressed a desire to assist in every way in giving the world a true picture of the progress of the great experiment; and as a first trial of the scheme it was decided to make a study of Soviet agricultural policy. An oral agreement was made with Moscow that the results of this study should not be published without the consent of the Soviet government.

A Russian agricultural economist of high standing was accordingly chosen by us to collaborate in the work. The Soviet government gave its consent; he was given access to the reports and other material which he required, and was brought to America, where he remained for a year, working in the Hoover War Library guiding and co-operating in the preparation of the manuscript. This study was completed four years ago; but thus far there has been neither definite assent nor categorical refusal in regard to its publication. It still remains in manuscript.

Meantime, still with the acquiescence of the Soviet authorities, negotiations had been carried on with selected Russian scholars for similar studies in other fields of economic experimentation — public finance, currency policy, control of foreign and domestic trade, industrial policy, etc. — and a promising start had been made, when the whole complexion of the enterprise was changed by the refusal of Moscow to permit the chosen economists to come to the United States or to co-operate in the work except under

conditions which would have made our organization here the mere publishers of materials which had been prepared in Russia without any participation on our part.

The result has been an abandonment, for the present at least, of the plan as originally conceived.

There has come to us, however, as one outcome of our negotiations in Moscow in 1928, a manuscript from one of the experts whom we then selected, the manuscript of the present volume on *Soviet Policy in Public Finance*. It was prepared under the direction of Mr. Gregory Y. Sokolnikov, the present Soviet Ambassador at London, who was formerly head of the Commissariat of Finance and is credited with having been the organizer of the State Bank in 1921-1922 and the author of the currency reform of 1923-1924. It was written partly by himself and partly by certain of his associates in the Commissariat selected by him. It is far from being the sort of study which we had in mind when Dr. Golder opened his first negotiations with Moscow, for we have been given no opportunity for critical analysis of the source material. It is much less a scientific, objective study than an ex parte statement prepared in an atmosphere such as to render it highly probable that a good deal of subjective bias has been permitted to creep in, with reference both to the evidence which has been selected for presentation and to data omitted which might have led to other conclusions.

Nevertheless, we feel that it has real value. Presenting, as it apparently does, an authoritative picture of Soviet policy in an important field of economic policy, at the moment of the inauguration of the much-heralded Five-Year Plan, it serves as a basis for an understanding of the developments under that plan. It probably to some degree lacks scientific reliability in its interpretation of events from 1917 to 1928; but it does at least seem to furnish a new point of departure for the interpretation of later developments. It pictures the system of 1928 in the light in which Russian authorities themselves see it, and embodies in considerable measure their prophecies as to future evolution, thus providing a sort of yardstick by which to measure future movement.

In translating and editing the Russian manuscript great care has been exercised in following the original as closely as possible. A considerable number of relatively unimportant arithmetical errors in the tables, etc., such as incorrect footings or calculations of percentages, have been corrected, and wherever possible the figures themselves have been checked from original sources. Several inconsistencies and contradictions as between the various authors of the chapters themselves have been cleared up on the basis of internal evidence. But otherwise the book is printed unchanged from the original, letting the responsibility for all statements of fact or of opinion rest squarely on the shoulders of the authors themselves. Indeed, no other course has been practicable, because of the closing by the Soviet authorities of all the channels through which we might have had access to and have made a thoroughgoing analysis of the source material.

In closing, it is a pleasure to make acknowledgment of the invaluable assistance of Professor Carl C. Plehn, of the University of California, who as an expert in public finance and statistics has made a painstaking revision of the entire manuscript and added greatly to its lucidity by clearing up doubtful points of terminology and of statistical method. He has also added comments, in the form of footnotes, which will make the volume more serviceable to English and American readers.

LINCOLN HUTCHINSON

BERKELEY, CALIFORNIA  
April 27, 1931

In editing these articles, we have been concerned solely with making them as understandable as possible to English readers.

A very serious difficulty was encountered. The English technical terms used in public finance, the only ones available in the language, will not express correctly Soviet financial thought and practice without qualifications and difficult explanations. For example, in English, the current definition of a tax is "a compulsory contribution taken from private



property or income for a public purpose." Yet during the short era of military communism in Russia there was no private property or income and no antithesis between "public" and "private." Yet supplies were furnished for the Red Army by reluctant peasants, and the so-called distributive quota is described as "virtually a compulsory tax." Even today under NEP the permitted "rights of property" and the nature of personal incomes are so circumscribed that they are not "private," as we use the term. Hence a "tax" in Russia is very different from a tax in a "bourgeois" country. American state constitutions, one and all, proclaim uniformity and equality as the essentials of justice in taxation. *Per contra*, the Soviets declare that taxes should be "based on social class distinction, and are thus one of the mightiest levers of Soviet social policy," that is, of achieving equality of economic well-being. Indirect taxes against which the Communists, when out of power, brought charges of vicious inequality, become in the hands of Soviet rulers a sacrosanct means of directing consumption into approved channels. "Loans" with them may be "compulsory" and the lure of lottery prizes is not taboo. It is to us a topsy-turvy world.

The editors are of that political faith which the Soviets call "bourgeois." We are, frankly, as deeply prejudiced against the aims of the Communists as they proclaim themselves to be against our ideals. But we have used every endeavor to be coldly objective and to keep prejudice out of our choice of words in translation, out of our notes and comments, and to give our readers the picture as nearly as may be as the Soviet authors painted it. If we have changed the colors we have done so subconsciously and not intentionally. Yet, of course, he who is color-blind cannot be altogether trusted to distinguish red from green.

CARL C. PLEHN

BERKELEY, CALIFORNIA  
April 27, 1931



## TABLE OF CONTENTS

	PAGE
<b>CHAPTER ONE. THE FINANCIAL SYSTEM OF PRE-WAR RUSSIA, <i>M. Bogolepov</i></b> . . . . .	1
I. A General Historical Survey, with Special Reference to the Last Decade before the World War	1
II. Pre-War Taxation, 1885 and 1914 . . . . .	18
III. Pre-War Local Government and Its Finances .	29
IV. The Cost of the World War . . . . .	33
V. The Financing of the World War, 1914-1917 .	38
VI. Credit Operations during the World War . .	60
 <b>CHAPTER TWO. PUBLIC FINANCES DURING THE CIVIL WAR, 1917-1921, <i>K. Shmelev</i></b> . . . . .	 74
I. General Characteristic of the Civil War Period	74
II. General Economic Situation during the Civil War	79
III. Compulsory Collections in Kind from Rural Producers (Peasants) in 1918 . . . . .	83
IV. Labor Duties . . . . .	98
V. State Property and Undertakings . . . . .	101
VI. Paper-Money Issues as a Source of State Revenue	109
VII. Taxes and Other Financial Resources . . . .	112
VIII. Cancellation of Public Debts and Private Securities . . . . .	119
IX. The Budget System during the Civil War Period	120
A. The State Budget . . . . .	120
B. The Local Finance . . . . .	131
 <b>CHAPTER THREE. THE NEW ECONOMIC POLICY, 1921-1928, <i>I. Reingold</i></b> . . . . .	 138
I. From Distributive Quota and Monopolies to Taxation . . . . .	138

	PAGE
II. Direct Taxation . . . . .	159
A. The Agricultural Tax . . . . .	160
B. The Income Tax . . . . .	168
C. The Trade (and Craft) Tax . . . . .	175
D. The Tax on Excess Profits . . . . .	179
E. The Tax on Rents . . . . .	180
F. The Inheritance and Gifts Tax . . . . .	182
G. Miscellaneous Duties . . . . .	183
III. Indirect Taxation . . . . .	185
A. Excises . . . . .	186
B. The Customs Revenues . . . . .	211
IV. Revenue from State Undertakings and Properties . . . . .	223
A. Revenue from Industries . . . . .	227
B. Revenue from State Domestic Trade . . . . .	231
C. Revenue from State Foreign Trade . . . . .	233
D. Receipts from Banks . . . . .	235
E. Revenue from Forests . . . . .	240
F. Revenue from Underground Wealth and from Various State Properties and Un- dertakings . . . . .	245
G. Rental Revenues . . . . .	246
H. Revenue from Concessions . . . . .	249
I. Revenue from Transportation, Mails, and Telegraph . . . . .	251
V. Receipts from Loans . . . . .	261
 CHAPTER FOUR. PRE-WAR AND PRESENT FINANCIAL SYSTEM,	
<i>G. Solovei</i> . . . . .	274
I. Introduction . . . . .	274
II. The Budget and National Income in 1913 and in 1927-1928 . . . . .	276
The Size of the Budget in 1913 and 1927-1928 . . . . .	278
III. Tax Receipts and Non-Tax Revenues in 1913 and in 1927-1928 . . . . .	279
IV. The Tax Burden . . . . .	280
A. Direct and Indirect Taxes . . . . .	282
B. Taxation of Various Social Groups . . . . .	283
V. Tax Receipts in 1913 and in 1927-1928 . . . . .	284

# Table of Contents

xiii

## PAGE

VI. Difference in Principles Involved in the Direct Taxation Systems . . . . .	285
Direct Taxes in 1913 and in 1927-1928 . . . . .	285
VII. Indirect Taxes in 1913 and 1927-1928 . . . . .	287
VIII. Non-Tax Revenues in 1913 and 1927-1928 . . . . .	290
IX. Comparative Study of Budget Expenditures for 1913 and 1927-1928 . . . . .	294
A. Objective Classification of State Expenditures in 1913 and 1927-1928 . . . . .	294
B. Comparative Analysis of Separate Expenditure Groups . . . . .	296
X. Allocations to the Local Budgets . . . . .	307
XI. The Rate of Growth of the Pre-War Budget of Russia and of the Soviet State Budget . . . . .	308
CHAPTER FIVE. BUDGET EXPENDITURES DURING THE YEARS 1922-1923 TO 1927-1928, <i>A. M. Gordin</i> . . . . .	309
I. Peculiarities of the U.S.S.R. Budget and Its Connection with Economic Conditions . . . . .	309
The Budget and the National Income . . . . .	311
II. General Conditions of Development of the State Budget . . . . .	313
III. The Main Trend of the State's Expenditures . . . . .	316
IV. Government Expenditures Proper . . . . .	321
A. Administrative Expenses . . . . .	321
B. Expenditures on Defense . . . . .	322
C. Expenses for Social-Cultural Needs . . . . .	324
D. Transportation Expenditures . . . . .	326
E. Expenditures for Communications Service: Mails, Telegraph, and Telephone . . . . .	329
V. Expenditures for Financing the National Economy . . . . .	330
CHAPTER SIX. THE BUDGET IN THE SYSTEM OF PLANNED ECONOMY—THE BACKGROUND OF THE "FIVE-YEAR PLAN," <i>G. Y. Sokolnikov</i> . . . . .	333
CHAPTER SEVEN. BUDGET FINANCING OF POPULAR ECONOMY, <i>A. S. Gordon</i> . . . . .	348
I. Proportion of Budget Resources Used for Financing Economy . . . . .	348

II. The Growth of Productive Enterprises Aided by State . . . . .	355
III. Reconstruction and New Construction by Activities . . . . .	360
IV. Funds for Electrification . . . . .	369
V. Funds for Selected Industries and Aims . . . . .	370
VI. Funds for Capital Investments in Transportation, Communication, Trade, and Dwellings . . . . .	378
VII. Funds for Communal Undertakings, Housing, Agriculture, and Roads . . . . .	384
CHAPTER EIGHT. BUDGETS OF ALLIED REPUBLICS, A. M. Gordin . . . . .	392
I. Fundamental Traits of the Evolution of Budget Laws . . . . .	392
II. Revenues of the Republics' Budgets . . . . .	399
III. Expenditures of the Republics' Budgets . . . . .	405
IV. Union and Republics' Budgets . . . . .	409
V. Mutual Accounts of the Union and the Republics . . . . .	411
CHAPTER NINE. DEVELOPMENT OF LOCAL BUDGETS IN THE U.S.S.R., A. M. Gordin . . . . .	413
I. General Survey of the Development of Local Budgets . . . . .	413
II. Existing System of Local Finances . . . . .	416
III. Progress of Local Budgets . . . . .	421
IV. Revenues of Local Budgets . . . . .	423
V. Expenditures of Local Budgets . . . . .	431
VI. Differentiation of Local Budgets . . . . .	440
CHAPTER TEN. FINANCE ADMINISTRATION IN THE U.S.S.R., I. Reingold . . . . .	442
I. The Old Russian System . . . . .	442
II. The People's Commissariats of Finance . . . . .	443
III. The Union Commissariat of Finance . . . . .	444
IV. The Finance Commissariats of the Republics and the Districts . . . . .	447
V. Boards of Tax Appeals . . . . .	449
VI. State Bank as Depositary and Cashier . . . . .	450
CHAPTER ELEVEN. PROSPECTS OF DEVELOPMENT OF FINANCIAL SYSTEM OF THE U.S.S.R., G. Y. Sokolnikov . . . . .	454

# SOVIET POLICY IN PUBLIC FINANCE

## CHAPTER ONE

### THE FINANCIAL SYSTEM OF PRE-WAR RUSSIA

*By M. Bogolepov*

#### I. A GENERAL HISTORICAL SURVEY, WITH SPECIAL REFERENCE TO THE LAST DECADE BEFORE THE WORLD WAR

The financial structure of Russia when she entered the World War was one of which the formal foundations had been laid on three historic dates:<sup>1</sup> 1802, when the Ministries

<sup>1</sup> The three historic dates referred to by the author, 1802, 1862, and 1906, are celebrated in Russian history as marking episodes in the advancement toward generous ideals and liberal reforms. The resulting changes in the financial organization were merely incidental to deeper movements.

The first, 1802, was in the reign of Alexander I (1801-1825), grandson of Catherine the Great, Tsar when Napoleon was forced to make his disastrous retreat from Moscow (1812). Alexander I is also credited with holding the allies together to defeat the French Emperor at Waterloo. During his reign many liberal reforms were inaugurated, and new and closer relations with other European nations led to a general reconstruction of government administration.

The second, set down as 1862, falls in the reign of Alexander II (1855-1881). It was in the early 'sixties that "the great reforms" in Russia occurred. Aroused public opinion favoring humanitarian measures received a hearing. Serfdom was abolished. The ancient "mir" (village) was reformed. The peasant was freed from the arbitrary rule of the landlords, and was assisted financially by the government to acquire land of his own. A new form of provincial government was established and placed in the hands of "zemstvos" (assemblies) in which the peasants and the householders, as well as the dominant nobility or large landholders, had representation. Roads, schools, and hospitals received the attention of the new provincial governments. It was in this period too that nihilism and other extremely radical revolutionary doctrines spread and that banishment to Siberia and similar drastic repressive measures became notorious. In a sense, possibly not too remote, this period may be regarded as antecedent to bolshevism.

The third date, 1906, marks the establishment of the imperial parliament—the Duma—and the end of the absolutism of the Tsar. (EDITORS.)

were established, among them the Ministry of Finance; 1862, when new budget<sup>2</sup> regulations based on the experience of Western European countries were decreed; and 1906, when, after the revolutionary outbreak of 1905 and the manifesto granting a constitution to Russia, budget regulations and laws in keeping with the new order of government were decreed. The first estimate of national receipts and expenditures was made for the year 1803, upon the establishment of Ministries, but the first one published for general information was that for 1862. The estimate for 1907 was the first one submitted to the state Duma. The last estimate compiled under the old régime was that for 1917. The beginning and the end of this historic period each bear one mark in common: both the 1803 and the 1917 estimates were made out in depreciated paper money.

It is only natural that during the 114 years of the operation of the financial system of pre-war Russia the material content of an apparently uniform scheme underwent great changes, following those that took place in Russian national economic life. The first half of the nineteenth century was a period of very primitive economy, closely approaching barter, and of serfdom, which kept the finances of the state revolving in very narrow confines. Financial development was slow and anemic down to almost the end of the 'sixties, when the first results of the great reforms of the early 'sixties began to show. The abolition of serfdom with the consequent stimulation of the nation's productivity, and the con-

<sup>2</sup> The term "budget" which occurs frequently in this and subsequent chapters is used very broadly. It covers preliminary estimates of a year's (sometimes six months') receipts and expenditures; and, again, it is applied to the controller's final statement of actual receipts and expenditures. Sometimes, when the discussion requires it, the term "executed budget" is used to distinguish the actual receipts and expenditures as finally audited from the estimates as of the beginning of the year. The budget is not, apparently, thought of as having the force of rigid control. Even in the recent years of soviet government, as will appear in the subsequent chapters, the estimates are subject to facile and frequent revision and the budget as "executed" is frequently quite different from the published preliminary estimates. In chapter six Mr. Sokolnikov explains in detail how the "budget" is conceived of and built up by "control figures" which are, rather than appropriations in the "budget" itself, the regulative means for supervision of the administrative officers. (EDITORS.)



struction of railways induced a more rapid growth in the economic life of the nation and the introduction of money circulation as a general custom; and this, in turn, quickened the development of public finance. We may judge the slow financial development in the first quarter of the nineteenth century by glancing at the increase in the budget. In 1803 it was, as recalculated in silver, 84 million rubles, and in 1825, 116 million, an increase of only 38 per cent in 22 years. Besides the two causes of the slow development of national finances in pre-war Russia mentioned above, it must also be pointed out that the first quarter of the nineteenth century was passed entirely under the influence of the Napoleonic wars and of their immediate consequences. Two particular results were: a great disorganization of money circulation, and the accumulation of a considerable national debt. The war with Napoleon definitely brought Russia into the circle of international politics and, creating it a Great Power, brought a country economically poor and culturally retarded face to face with vast political problems. Great Power policies accompanied by poverty of economic resources were very clearly mirrored in the Russian national budget, giving it a monstrous aspect if looked at from the point of view of the people's true interests. In 1825, out of a total national expenditure of 418 million paper rubles (a silver ruble at that time was worth 3.60 paper rubles), 236 million, or 56.4 per cent, went for the national debt and national defense. And while 24 million were spent on the imperial court, only 3.6 million, or less than one per cent, were spared for popular education.<sup>8</sup>

<sup>8</sup> Here and in several other places the author points to the relatively small amount spent by the imperial government for education. The question naturally arises whether this by itself proves the neglect of education. If one were to examine the "budget," or expenditures, of the federal government of the United States he would find only a trace of money for "popular education," yet education is fairly well supported in the United States. While the extent of illiteracy in Russia was great, it is true that the local governments after 1860 took over the problem of schools, and the absence of central appropriations is perhaps not very significant. As will be seen in other chapters, Soviet Russia, too, leaves the schools largely to local government, but it does decree that the local authorities endeavor to maintain a fair educational budget. (Editors.)

This deserves mention because it became, as it were, a characteristic feature of the development of Russian imperial finances. In the budget for 1860—typical of the years which followed the Crimean War and which concluded a period in Russian history customarily called “pre-reformatory” on account of the subsequent considerable reforms—the national debt and defense still claimed 55 per cent of the total outlay, while less than one per cent remained for popular education. After the enactment of reforms, in 1865, debt and defense received 53.7 per cent and 1½ per cent went for education. Then there began the period of railway construction in which the government played a prominent part, and again the national budget, which presently included appropriations for railroad construction and the gross figures of the state railways’ receipts and expenditures, reflected the change. The relative importance of various items was materially altered. Nevertheless, in 1870, the national debt and defense took 44.3 per cent of the total outlay, while less than 2 per cent was left for popular education. The budget of 1880, following the close of war with Turkey, shows an especially high figure for the national debt and defense, namely, 58.7 per cent of the total gross expenditures, and 2.1 per cent remaining for popular education.

Another important fact is that throughout almost the entire period under discussion, i.e., during eight decades, the national budget steadily showed a deficit, and such a protracted failure of budget equilibrium was inevitably accompanied by disorders in the money circulation and an accumulation of national debt.

After the beginning of the 'eighties Russia enjoyed peace in her foreign relations up to 1904, when, partly through her own fault, partly through foreign political intrigue, she became engaged in a war with Japan; yet this respite of a quarter century did not in the least help the state to order its financial resources in a more purposeful way. Thus, in 1890, the national debt and defense claimed 56.4 per cent of the total budget expenditures and popular education got the same 2.1 per cent as in 1880. Toward the end of the century the aggregate figures of the budget were especially high be-

cause the government became the owner of a huge railway system. Yet expenses for the national debt and defense still occupied the foremost place in the 1900 figures, totaling nearly 40 per cent of the expenditures, while only 1.7 per cent went for popular education.<sup>4</sup>

The end of the nineteenth century was marked by an event of the greatest importance in Russian financial history: the gold standard was introduced. This reform cost Russia great effort and sacrifice and no less effort was required to maintain the stability of the new standard. It considerably facilitated the influx of foreign capital into Russia and, as a consequence, a more rapid development of the country's productive forces; but simultaneously—and at an accelerated pace—it also developed the Great Power political tendencies of the government, and this in turn was reflected in the fact that Russian finance could not, even in the twentieth century, abandon its sorry nineteenth-century pattern. The main efforts of the government, as of old, were directed toward the payment of the rapidly growing national debt and the maintenance of national defense.

The twenty-five years of peace gave Russia her chance to introduce the gold standard and to finance the war with Japan in a comparatively normal manner. That war cost Russia 3,016 million gold rubles. Of these about 2,500 million were spent during the war itself and the rest went to pay for its immediate consequences. The liquidation of the costs of the Russo-Japanese War lasted down to 1914, that is, to the beginning of a new war. Of the 3,000 million rubles of war expenses, 2,450 million were procured through loans, 381 million were taken from the "free reserve" of the national Treasury, and the rest was obtained from annual budget allotments. The war with Japan and the revolutionary conflagration of 1905 seriously threatened the gold standard, but a huge foreign loan in 1906, amounting to 843

<sup>4</sup> The *Encyclopaedia Britannica* (eleventh edition) gives the following: Primary schools in 1900, £5,300,000: 20 per cent by state, 23 per cent by zemstvos, 35½ per cent by village communities and municipalities, and 11½ per cent by private persons. Middle schools: state 25 per cent, fees 30 per cent, donations from the zemstvos and municipalities making up the balance. (EDITORS.)

million rubles, saved the day. Nevertheless, these two events dealt a great blow to Russian finances. In the first place, they consumed the entire "free reserve" of the Treasury and slackened the development of normal sources of income. In the second place, on account of the war with Japan, many tax rates were raised. But even this did not help the budget to keep its balance; the receipts began to decline, while the expenditures of the state grew—chiefly because of a sudden upward turn of the national debt. It will be useful for the understanding of the situation to give here a table representing the movement of the ordinary national receipts during those years:

#### ORDINARY NATIONAL RECEIPTS

Year	Million Rubles	Year	Million Rubles
1903 .....	2,031.8	1905 .....	2,024.6
1904 .....	2,018.3	1906 .....	2,271.7

Thus it was not until 1906 that the government succeeded in re-establishing the upward movement of state revenues, and it was at that very moment that the old problem of strengthening the national defenses rose again, and again caused a one-sided strain on budget resources and a cutting down of all other expenses, chiefly those for education and for assistance to the productive forces of the country.

To give a clear picture of the last decade preceding the World War, the beginning of which was marked by the Russo-Japanese War, it will be useful to quote a few figures which throw much light on the situation. The war with Japan having exposed Russia's military weakness it was only natural that attention was given mainly to making use of an experience and a lesson for which Russia had paid so dearly.

In the course of the decade, the budget expenditures for national defense,<sup>5</sup> exclusive of expenses on warfare proper, rose as shown in the following table:

<sup>5</sup> The following comments apply not only to the table to which this note is appended but to a multitude of other tables in the following pages in all of the separate chapters. In the Russian manuscript this table con-

## THE COST OF DEFENSE

*(Million rubles)*

Year	Total Budget	National Defense
1903 .....	2,107.9	466.3
1904 .....	2,737.7	491.3
1905 .....	3,204.7	496.3
1906 .....	3,212.7	504.2
1907 .....	2,582.6	493.4
1908 .....	2,656.7	612.2
1909 .....	2,607.5	630.6
1910 .....	2,596.6	647.6
1911 .....	2,845.7	669.3
1912 .....	3,171.0	809.2
1913 .....	3,382.9	944.0
Total .....	31,106.0	6,764.4

This table shows that the expenses for defense doubled in a period during which all the resources of the budget, both ordinary and extraordinary, increased only 60 per cent.

tains further columns showing the percentage of each year's expenditures to those of 1903, intended to serve as an index of growth during the eleven years. There is also a column showing the percentage of the total which the expenditures for national defense were for each year. The editors have omitted these columns for two reasons. The first is that the growth and relative size of the expenditures can be very readily seen in the absolute figures and the "relatives" or percentages are not necessary. The second is that the use of such ratios to indicate or measure growth is not good statistical practice, since the size of the percentages and consequently the apparent size of movement of the index depends wholly on the base selected, and in a merely chronological table the selection of the first year as such is purely arbitrary. Thus, for example, the growth from 1903 to 1913 in this table is computed at 60 per cent with 1903 as a base. But had 1904 been selected as the base the growth would have appeared as only 23 per cent. The same method applied by another author in tables relating to the improvement in economic conditions during the first five years of the new economic policy often gives an even more distorted picture. Thus a new tax which yielded but a trifling revenue in the first year of its collection and grew to approximately normal yield in, say, the fourth or fifth year, would be represented, perhaps, as increasing at a rate of several hundred or several thousand per cent when possibly the normal rate of growth after the tax was well under way was not at all astonishing. The figures might be charted on a logarithmic scale, a method which would, perhaps, convey to the eye a truer picture of the rate of progress or growth; but the editors have felt that this would involve unnecessary elaboration, since the half-dozen or at most the dozen absolute numbers ever involved can be so easily compared by the reader. (EDITORS.)

The especially rapid increase did not set in until 1908, when the menace of a new war in Europe became very real; and thus, as a matter of fact, Russia had only six years during the decade covered by the table shown above for intensive preparation for the World War.

The entire income of the state from 1903 to 1913 amounted to 31,106 million rubles. Out of this total income warfare and preparation for war claimed 9,798.7 million or 31.5 per cent. This was made up as follows: war with Japan, 3,016 million; expeditions in Persia and China, 18.3 million; upkeep and strengthening of defense, 6,764.4 million (see table); total, 9,798.7 million rubles.

Russia had entered the period 1903–1913 with a national debt which, in proportion to her economic strength, was enormous. To be precise, at the beginning of 1903 this debt reached 6,643.9 million rubles. Amortization of urgent debts, war, interest on the balances, etc., made almost uninterrupted credit operations necessary. These extremely interesting data are shown in the following table:

### CREDIT OPERATIONS OF RUSSIA, 1902 TO 1913

(*Million rubles*)

Year	New Debt	Paid on Capital of Debt	Balance to Close of Year	Increase or Decrease* of Debt	Expenses of National Debt
1902 .....	.....	.....	6,643.9	.....	.....
1903 .....	134.0	126.1	6,651.8	+ 7.9	289.8
1904 .....	452.5	22.6	7,081.7	+ 429.9	298.7
1905 .....	842.7	83.3	7,841.2	+ 759.5	307.0
1906 .....	1,275.2	490.8	8,625.6	+ 784.4	356.9
1907 .....	174.8	74.8	8,725.5	+ 99.9	374.4
1908 .....	376.9	251.7	8,850.8	+ 125.3	397.6
1909 .....	603.0	399.2	9,054.6	+ 203.8	395.0
1910 .....	3.2	27.6	9,030.2	— 24.4	409.0
1911 .....	2.3	74.6	8,957.9	— 72.3	399.3
1912 .....	179.7	279.5	8,858.0	— 99.9	393.7
1913 .....	51.6	85.1	8,824.5	— 33.5	424.4
Total ...	4,095.9	1,915.3	.....	+2,180.6	4,045.8

\* Increase is indicated by +; decrease by —.

The total expense called for by the national debt in the course of these eleven years was 4,045.8 million rubles, or 13 per cent of the total national expenditures. It is interesting to note that, as the table shows, during this period the budget receipts from new loans were 4,095.9 million, or 13.1 per cent of the total income of the state.

If we now compare the table showing the expenditures for war and national defense with the one showing payments of interest and capital on the national debt, we see the following: war and defense consumed from 1903 to 1913, 9,798.7 million rubles, and payments on the national debt, 4,045.8 million. Together these two items took 13,844.5 million rubles from the national budget, or 44.5 per cent of the total expenditures. Thus the characteristic trait of the Russian budget, i.e., its excessive ratio of nonproductive expenses, remained unchanged throughout the whole later period of pre-war Russian financial history. If, again, we exclude from the Russian budget of the twentieth century the gross receipts and expenditures of the state-owned railways and those relating to the alcohol monopoly of the government, the ratio of nonproductive expenses to the total rises still higher. To this category of expenses should also be added the amounts spent for the construction of strategic railway lines and for the special military equipment of the entire railway system. When these are added to the sum total of nonproductive expenses of the Russian Empire, it appears that from 1903 to 1913 one-half of the total income of the empire was spent unproductively.

This proportion of one-half shows remarkable constancy during a whole century of Russian financial history. Yet even this abnormally high percentage does not tell the whole story, for even the remaining half of the empire's income was not entirely free to be spent on aims more in keeping with national welfare. The overwhelming national debt, the requirements of the money circulation, and the belief in the necessity for an emergency reserve compelled the government to apply in its budget policy and practice the system of a so-called "free treasury fund." This free fund was formed as a result of manipulation of the budget to give

the appearance of an excess of receipts over expenditures. This "free fund" appears steadily from the early 'eighties to the World War, with only one interruption, namely, during the Japanese War and the 1905 revolution. This surplus was of a very artificial nature, being the result of systematic rises in tax rates and of extremely parsimonious supplying of the people's most urgent needs. It must also be borne in mind that the accumulation of the free treasury fund was accompanied by a parallel growth of the national debt. The movement of the free fund can be seen from the following figures:

#### THE FREE TREASURY FUND

January 1	Million Rubles	January 1	Million Rubles
1903 .....	257.4	1909 .....	1.8
1904 .....	381.3	1910 .....	107.4
1905 .....	61.8	1911 .....	333.0
1906 .....	-157.9	1912 .....	473.4
1907 .....	58.5	1913 .....	433.3
1908 .....	8.9	1914 .....	514.2

The free fund, which by January 1, 1914, had thus reached a colossal figure, was all spent in August 1914 in carrying out general mobilization.

Russian financial statistics are inadequate to enable us to ascertain the exact purpose of each of the huge budget items. Attempts to separate the figures into groups corresponding to various purposes on which the money was spent always raise doubts and controversies. Besides, the official classification of the empire's expenditures was considerably changed in 1907 when the government carefully improved the external appearance of its budget in order to make a better showing to the representatives of the people. Comparison between separate years of even a single decade is thus very difficult. The most trustworthy method is to compare the expenditures of two years, one at the beginning and one at the end of the decade, using the official classification. In the table which follows, expenditures are distributed between government departments, and in only a few cases are their ultimate purposes shown.



ORDINARY STATE EXPENDITURES<sup>6</sup>

(Million rubles)

<i>Departments of general government</i>	1903	1913
Ministry of the Court.....	15.9	17.4
Higher state institutions.....	3.7	9.5
Church government .....	28.5	45.7
Ministry of the Interior.....	61.0	107.1
Ministry of Finance .....	183.2	247.4
Ministry of Justice .....	49.1	90.7
Ministry of Foreign Affairs.....	6.1	11.5
State Comptroller .....	8.4	12.1
Total .....	355.9	541.4
<i>Departments connected with cultural needs and public economy</i>		
Ministry of Popular Education.....	39.4	143.0
Ministry of Ways and Communications.....	32.9	53.8
Ministry of Trades and Industries.....	40.2	64.6
Main office of land settlement and agriculture.	31.5	135.8
State horsebreeding .....	2.1	3.3
Department of Mails and Telegraphs.....	39.1	80.2
Total .....	185.2	480.7
<i>Defense</i>		
Ministry of War.....	352.4	581.1
Ministry of the Navy.....	113.9	244.8
Total .....	466.3	825.9
<i>Government undertakings</i>		
Vodka monopoly .....	170.6	234.9
Railways .....	416.3	586.9
Total .....	586.9	821.8
National debt .....	288.7	424.4
Grand total .....	1,883.0	3,094.2

This table shows that the expenditures debited to the general government departments, to government undertakings, and to the national debt account grew from 1903 to

<sup>6</sup> A column giving the rates of increase has been omitted for reasons given in footnote 5 on pp. 6-7, above. (EDITORS.)

1913 less rapidly than did the total budget. On the other hand, expenditures of the departments serving cultural and economic needs and the national defense increased more rapidly than the total. Especially conspicuous is the growth of expenditures in the two departments (a) of popular education and (b) of agriculture and land settlement.

The introduction of legislative institutions contributed to the growth of expenditures for popular education and agriculture, for on these two points the government made concessions to the state Duma. But the real value of these concessions was small, as may be seen from a table comparing the relative importance of individual groups of expenditures in the general scheme:

EXPENDITURES BY PURPOSES IN PERCENTAGES OF  
TOTALS, 1903 AND 1913

	1903	1913
General government departments.....	18.9	17.5
Departments connected with cultural needs and public economy.....	9.8	15.5
Defense .....	24.8	26.7
Government undertakings .....	31.2	26.6
National debt .....	15.3	13.7

The expenses of the departments connected with cultural needs and national economy were still down near the bottom of the scale. The Ministry of Popular Education had risen from its old ratio of from 1 to 2 per cent, yet in 1913 it still received less than 5 per cent of the total.

These figures, however, refer to the ordinary budget only. Alongside the ordinary budget and in close connection with it was an extraordinary budget. The allocation of expenditures between these two budgets was artificial and changeable; and it is only by examining them simultaneously that it is possible to get a true picture of national finances.

During the same period, 1903-1913, the empire spent a colossal sum on the extraordinary budget, namely, 2,034 million rubles, exclusive of the amounts that went for the Russo-Japanese War (3,016 million). Thus an average of some 200 million was spent yearly through the extraordinary

budget for purposes which we find in the ordinary budget as well. These 2,034 million rubles were spent as follows:

	Million Rubles
Railways .....	886
Defense .....	475
National debt .....	210
Crop failure relief .....	403
Construction of seaports.....	24
All other expenses .....	36
Total .....	2,034

Over a third of all extraordinary expenditures were thus made for national defense and national debt.

These extraordinary expenditures were covered by national loans to the extent of 272 million rubles. The balance was made up from surplus amounts on estimates previously closed (270 million), from an excess of receipts over expenditures in the ordinary budget (1,412 million), and, to the extent of 80 million, from loans repaid to the Treasury and from special funds which reverted to the general Treasury resources.

Thus it is obvious that the government of the Tsars made very strenuous efforts to cover most of the extraordinary expenditures, connected with railway construction and increasing military preparation, out of the ordinary revenue. To this end duties and taxes were repeatedly increased and a very conservative policy was pursued as to the satisfaction of the country's most elementary needs. The basis of this policy was the desire to uphold the government's credit standing, which was the only foundation on which military preparedness in pre-war Russia rested. The accumulation of a national debt which on January 1, 1914, reached the enormous figure of 8,811,380,139 rubles [in round numbers \$4,400,000,000—EDITORS] caused great anxiety to the government. It had earned Russia the unenviable fame of being the greatest debtor nation in the world's history and was a serious obstacle to the further use of national credit, especially in foreign markets. National credit must by all pos-

sible means be saved for a rainy day, and because the budget was thus limited the financial system lacked elasticity.

The national debt as accumulated to January 1, 1914, may be classified as follows:

Debts contracted in rubles equal to $\frac{1}{10}$ of an	Rubles
“imperial,” or in foreign currency	
Without maturity date.....	53,352,178
With maturity date .....	2,804,489,269
Debts contracted in rubles equal to $\frac{1}{15}$ of an	
“imperial” <sup>7</sup>	
Without maturity date.....	3,253,006,550
With maturity date.....	2,700,532,142
Total .....	8,811,380,139

No precise figures exist as to what part of this indebtedness was contracted abroad; but we may safely assume that, as a rule, all the debts in old-standard gold rubles of  $\frac{1}{10}$  of an imperial, as well as in foreign currency, were placed abroad. This portion of the Russian national debt alone constituted about one-third of the whole; and, in addition, it is certain that a portion of the other obligations was also held there. A clearer idea may, perhaps, be had from the data of the State Comptroller showing the distribution of budget payments each year on the service of loans. Such payments, including those made abroad, are listed in the following table:

#### DISTRIBUTION OF DEBT PAYMENTS

Year	Total Payments (Million Rubles)	Paid Abroad (Million Rubles)	Percent- age
1903 .....	288.7	130.3	45.0
1907 .....	374.2	190.5	50.9
1908 .....	397.6	202.3	51.0
1909 .....	394.9	180.5	45.7
1910 .....	399.4	175.4	44.0
1911 .....	399.4	143.6	35.9
1912 .....	393.5	183.3	46.5
1913 .....	424.0	196.4	46.3

<sup>7</sup> The “imperial” of 1897. An attempt was made to stabilize paper rubles at 15 to 1 by a new imperial coin of the same weight and fineness as the old 10-gold-ruble piece but stamped 15 rubles. (Errors.)

Domestic credit had long been made use of in Russia in an informal and irregular manner, such as using currency issues for budget purposes, especially after the introduction of paper money in 1769; but it was not until the beginning of the present century that it began to play an important part through the issue of domestic loans. The period from 1900 to 1913 was marked by a shifting of the government's borrowing to the domestic market. The following table shows the distribution of Russian securities, government as well as private issues, for two five-year periods:

## SALES OF RUSSIAN SECURITIES, PUBLIC AND PRIVATE

Where Sold	1904-1908		1909-1913	
	Million Rubles	Percent-age	Million Rubles	Percent-age
In Russia . . . . .	2,861.8	65.4	3,840.4	69
Abroad . . . . .	1,517.3	34.6	1,718.4	31
Total . . . . .	4,379.1	100.0	5,558.8	100

During the entire ten-year period Russian bond issues aggregated 9,937.9 million rubles. Of this total 6,702.2 million, or 67.4 per cent, was absorbed by the Russian market, and the balance of 3,235.7 million, or 32.6 per cent, was placed abroad. While there was an absolute increase in bonds sold abroad during the second half of the period, their ratio to the total amount decreased.

It is interesting to note that of the total 9,937.9 million rubles (public and private together) the government issued 2,320.2 million, of which 2,145.2 million was issued in the first five years, and only 175 million in the second five years. This marked decline is due to the fact that the Japanese War, which was financed through foreign loans, happened during the first period.

The heavy pressure on the domestic money market during the last five years before the World War served to disclose the limits of that market; for it became evident that not nearly all the needs of the country could be supplied through domestic credit. The Minister of Finance in dis-

cussing, in his budget note for 1914, the increased sale of Russian bonds abroad in 1912 was compelled to state that "the domestic market has presented increasing difficulties in the placing of new loans." At the same time, the foreign credit of the government rested chiefly on a political basis, and foreign creditors were continually expressing apprehension regarding the rapid growth of the Russian national debt abroad. Time and again warnings were heard concerning the possibility of a bankruptcy of the Russian monarchy. A long list of books and especially of articles in the foreign press discussing the coming bankruptcy of Russia might be compiled; and such talk of insolvency naturally became more insistent whenever Russia suffered from periods of high economic tension or elemental catastrophes.

If, even in normal times, the economic and financial equilibrium in Russia was maintained only with the help of foreign capital and through strong pressure on domestic resources, then during wars or crop failures and famines—which visited the country periodically—it was inevitable that the position of the country and her finances should always become critical. The low resistance of the Russian economic organism in times of stress was due chiefly to the exceedingly low development of the country's productive forces and to the inharmonious nature of this development. Capitalism was growing vigorously but on a basis of stunted agriculture and gradually weakening tax-paying capacity. For example, toward the close of the 'eighties the Russian government budget was balanced by a merciless screwing up of the "podati" or peasants' taxes. Three years later, in 1891, a serious crop failure visited the country, causing true famine among many millions of people, and hundreds of million rubles had to be taken from the state budget to fight it. The famine exposed an economic instability among the peasantry comparable to that of the masses in India. In no countries except Russia and India did a crop failure in modern times bring on inevitable famine. Yet this did not prevent Russia, immediately after the great famine of 1891, from giving a great forward push to her manufacturing industries. The artificial character of this develop-

ment could not but force itself upon any thoughtful observer of Russian conditions, and it provoked new comment and new forebodings of imminent state bankruptcy. A country whose basic industry was in so precarious a position and whose Treasury was compelled to spend half its budget resources on defense and on loan payments was obviously not in a position to turn her capital safely into the development of her industrial resources.

The combined result of the country's poverty, the maladjustment of the tax system (of which more will be said later), and the extremely imperfect political structure was a policy of satisfying the people's prime needs in homeopathic doses, which doomed the country to cultural backwardness. Lack of culture in its turn depreciated the usefulness of investments in Russian industry, through augmenting the inefficiency of labor, and also reduced the effectiveness of those billions of rubles invested in national defense, which, in modern times, requires quality no less than quantity.

Of course, there also existed some objective reasons for the slow economic development of pre-war Russia. One of these was her geographical situation. Russia is emphatically a continental country, a fact which became most apparent in the nineteenth century, rightly called the age of railways. Russia began building her railroads with very little delay as compared to Western European countries. Yet the overwhelmingly continental character of the land, its boundless expanse, kept down the economic efficiency of the mileage constructed. Russia's investments in railway construction equaled those of the richest Western countries, but in results she held last place. On January 1, 1914, Russia had invested in her railways 7,687 million rubles gold, Germany 8,909 million, and France 5,714 million; but in Russia there were, as a result of this investment, only 4 kilometers of railway to every 10,000 people, while in Germany there were 9.5 kilometers and in France 13 kilometers. In Russia there were only 0.3 kilometers of railway per 100 square kilometers, while in Germany the figure was 11.8 kilometers and in France 9.5 kilometers. Geographically, there is much in common between Russia and the United States; but the

United States by January 1, 1914, had invested in her railways five times the capital so invested by Russia and about four times that invested by Germany, and at that time there were in the United States 4.4 kilometers of railway to every 100 square kilometers. When we compare Russia in this respect with her neighbors who were better favored geographically, it becomes obvious that to Russia, with a railway investment which for her was enormous and a negligible mileage ratio, her railways were an incentive but at the same time a handicap to economic development. It was impossible even to hope to equip the country adequately with railways.

## II. PRE-WAR TAXATION, 1885 AND 1914

We have already said that Russia's pre-war finances were perpetually in a state of excessive tension resulting from lack of co-ordination between the government's political problems and the country's economic resources. This tension was, moreover, still further increased by another factor which operated throughout the financial history of modern Russia. It was that her taxation system was built on a sharp division of the entire nation into two separate groups: the tax-paying classes, so designated, and the privileged classes, practically tax-exempt. True, a law made in 1811 and surviving up to the collapse of the old régime read: "Of one private person, or society, or of any one class, in no case shall more be demanded than of another. All classes of the people shall, in proportion to their fortune and profits, take part in satisfying the needs of the State." (*The Statutes of the Russian Empire*, Vol. I, Part 2, Article 475.) It would, however, be difficult to find another law so hypocritical and misleading as this. In the very year when it was published, the ordinary budget of the state's receipts consisted of items shown in the table opposite.

Since, under the law, the head-tax and the agreement tax rested entirely on the lower classes, and the alcohol and salt monopolies were chiefly supported by the masses, we may say that in 1811 about 75 per cent of the entire state's receipts came from the lower classes. These, especially the



## REVENUE OF RUSSIAN EMPIRE IN 1811

	Million Paper Roubles
Head-tax and assessment tax <sup>8</sup> from peasants.....	80.6
Receipts from vodka sales.....	75.4
Receipts from sales of salt.....	16.5
Customs receipts .....	15.8
Other revenues .....	44.5
Total .....	232.8

peasantry, also bore the entire burden of the taxes in kind paid to the government. As money circulation was but little developed, such taxes played a very important part. If we consider, in addition, that until 1861 the bulk of Russian peasantry lived in a state of serfdom and were therefore made to pay taxes and duties to their landlords, it is obvious that the system imposed a heavy yoke on the lower classes. Upon the abolition of serfdom the peasants, whose obligations had been redeemed by the government, had to make so-called release payments to the government for their land. These payments, most of which were abolished during the revolutionary outbreak of 1905 (the law of November 3, 1905), yet survived to some extent even down to the fall of the monarchy; and they continually emphasized the contrast between the abnormally burdened payers of direct taxes and the other social groups.

Direct taxes and duties in kind were a burden upon the peasantry not only because of their being out of all proportion to their incomes, but because of the harsh methods of levying them. The chief agents for the collection of money taxes and taxes in kind were the police, whose attitude toward this duty was altogether too bureaucratic and helped to make taxation a cause of ruin for vast numbers of the population.

With the development of a money circulation and a greater differentiation in the sources of income, the finan-

<sup>8</sup> In Russian, *obrochnaia podat*, a tax assessed on state-owned peasants and non-Russian natives on the basis of the character of the land used or, in the case of natives, on their sources of livelihood. (TRANSLATOR.)

cial system of Russia expanded; and there were adopted, in the realm of direct taxation, the forms of so-called real<sup>9</sup> taxation, and in that of indirect taxation, a variety of excises. In 1863 appeared a tax on city property and a trade license tax; and in 1875, a land tax. From 1885 on began the gradual abolition of the head-tax, though its final abolition in remote parts of the empire did not come about until January 1, 1907.

Thus it was that not until the middle of the 'eighties did Russia's financial structure take on the form which it had at the time of the country's entry into the World War. A vigorous development of indirect taxes enabled the government to discontinue direct taxation of the lower classes in such forms as had originated under primitive agricultural conditions and serfdom.

If we divide all the ordinary receipts of the state into two basic groups, i.e., those derived from taxes and those derived from all other sources, the growth of these receipts during the period 1885 to 1913 shows as follows:

#### REVENUES FROM TAXATION AND OTHER SOURCES, 1885-1913\*

Year	From Taxation		From Other Sources		Total Revenues (Million Rubles)
	Million Rubles	Percentage of Total	Million Rubles	Percentage of Total	
1885 . . . . .	540.3	70.6	224.7	29.4	765.0
1890 . . . . .	626.3	65.8	325.7	34.2	952.0
1895 . . . . .	772.5	61.5	483.3	38.5	1,255.8
1900 . . . . .	996.3	58.5	707.8	41.5	1,704.1
1905 . . . . .	1,244.7	61.5	779.9	38.5	2,024.6
1910 . . . . .	1,746.2	62.8	1,034.8	37.2	2,781.0
1913 . . . . .	2,110.9	61.7	1,306.4	38.3	3,417.3

\* Three columns showing "ratio of change" omitted. See footnote 5, pp. 6-7, above. (EDITORS.)

The table shows that throughout the period under consideration the ordinary revenues of the Russian government budget were mainly from taxation, in spite of the fact that revenues from other sources grew at a much faster rate than

<sup>9</sup> "Real" as here used is from the Latin *res*, things. It is a technical term in public finance meaning an objective tax, like a property tax, based on things as distinguished from persons. (EDITORS.)

did tax receipts. If we bear in mind that the revenues other than from taxes included the gross receipts from railways, mails, and telegraphs, the tax-derived nature of the Russian budget becomes even more apparent. If we deduct from the 1913 budget the expenditure of 515.7 million rubles on railway operation and 80.2 million rubles on the operation of mails and telegraphs, the net budget thus obtained shows 75 per cent of tax receipts and only 25 per cent from all other sources.

The composition of the revenue from taxes varied considerably, as may be seen by a comparison of the following: direct taxes; excise taxes, including the profits from the alcohol monopoly; and customs duties.

#### REVENUES FROM TAXATION BY SOURCES IN 1885 AND IN 1913\*

Source	1885		1913	
	Million Rubles	Percentage of Total	Million Rubles	Percentage of Total
Direct taxes ...	130.4	24.1	272.5	12.9
Excise taxes ...	360.4	66.7	1,607.4	76.1
Customs duties.	49.5	9.2	231.2	11.0
Total	540.3	100.0	2,111.1	100.0

\* A column showing ratio of change has again been omitted.

The great increase in indirect taxation, as shown in the 1913 figures, indicates two things: first, that during the years 1885 to 1913 a great change occurred in the nature of popular consumption, factory goods gaining rapidly in favor, in accordance with the general trend of Russia's economic development; and, second, that the government, though in continual need of money, could not and dared not further increase the direct taxes in anything like the same degree as the indirect taxes. Two obstacles stood in the way: The first was the poverty of the peasant farms, which could barely carry even the existing direct taxes. In addition to the state taxes the peasants had to pay local taxes on their land. Large accumulations of arrears had become the rule, in spite of the zeal of the tax collectors; and from time to

time it had been found necessary to cancel these under pretext of some event of national importance; and in 1905 when revolutionary unrest was widespread among the rural masses it was deemed expedient entirely to abolish release payments for land. The second obstacle to a further increase in direct taxation lay in the fact that, up to the fall of the monarchy, the government had continued in force the old social division of the Russian people into taxpayers and privileged classes, the latter being practically exempt from direct taxes. From the 'sixties of the nineteenth century, time and again the introduction of an income tax had come under consideration as the financial needs became more and more pressing; but not even the worst shocks suffered by the country had been sufficient to induce the Russian bourgeoisie to consent to such a tax, no matter how moderate and light. Even the war of 1914 was not a sufficient reason for placing the income tax on the government agenda. An income tax was proposed at the close of 1916 but was never actually levied. The situation in 1913 was as follows:

#### DIRECT TAXATION IN 1913

	Million Rubles
Land taxes, taxes on city property, and peasant taxes	87.3
Trade license taxes .....	150.1
Tax on moneyed capital (in cash or securities) .....	35.1
Total .....	272.5

The first of these items was made up of land taxes amounting to 24.4 million rubles, taxes on city property amounting to 27.6 million, and an apartment tax amounting to 9.2 million, the balance consisting of minor taxes borne by the peasants in the various provinces. The land tax in 1885 yielded 19.6 million rubles. In 1895 it rose to 22 million, but in the following year it decreased to 14 million. Then again it gradually rose until in 1913 it reached 24 million rubles. It was evident that the government had no desire to develop this tax, though apparently it was a logical one in an agricultural country such as Russia. The negligible size of the

land tax made the landlords' estates practically exempt from direct state taxation.

The apartment tax was paid directly by tenants in city dwellings; and indirectly the tax on property in the cities was also shifted to them. Trade license taxes, as a rule, were shifted to the prices of goods and were therefore paid by the largest or lowest stratum of the population. Thus the propertied classes bore as a matter of fact practically no direct taxes.<sup>10</sup>

Indirect taxation is shown in the following table:

INLAND INDIRECT TAXES IN 1885 AND IN 1913

Source	1885		1913	
	Million Rubles	Percentage of Total	Million Rubles	Percentage of Total
Beverages .....	231.3	64.2	953.1	59.3
Tobacco and cigarettes	19.7	5.5	83.6	5.2
Sugar excise .....	13.9	3.8	149.2	9.3
Excise on petroleum*....	....	....	48.5	3.0
Excise on matches.....	....	....	20.1	1.3
Other duties .....	95.5	26.5	352.9	21.9
Total .....	360.4	100.0	1,607.4	100.0

\* Called in Russia "naphtha." See chapter three, p. 245.

This table is an eloquent one. More than half of the excise revenues consisted of proceeds from the alcohol monopoly, these proceeds being made up by sales of vodka, a uniform excise on all alcohol produced in the few provinces where there was no government monopoly of alcohol, an excise on alcohol for technical purposes, an excise on beer, and minor sources of a similar nature. The foremost place in the revenue from the alcohol monopoly was held by the receipts from the government sales of vodka, which, in 1913 for instance, amounted to 899.3 million rubles. In that year 104.6 million pails (vedros)<sup>11</sup> of vodka were sold

<sup>10</sup> One may doubt the accuracy of such sweeping assertions as to the incidence of taxes. It is at least possible that a very considerable burden would fall on the property owners. (EDITORS.)

<sup>11</sup> A vedro equals 3.25 gallons United States measure. (EDITORS.)

to the people, making an average of 0.66 of a pail of vodka per person. This average had been slowly rising. In 1890 it was 0.53 of a pail; in 1900, 0.48; in 1905, 0.57; and so on.

The second place in the system of indirect taxation was held by the customs duties. For aside from the high protective duties there were many duties of a purely fiscal character, supplementing the revenue from inland excises. To describe the customs it will be sufficient to point out that in 1913 the ratio of duties to the value of the imports was 27 per cent. It varied considerably, however, as to particular items. For example, in the same year, 1913, the duty on imported iron stood at 60.7 per cent of its value.

The growth of receipts from various indirect taxes resulted from two main factors: the increase of per capita consumption, and the raising of tax rates. The latter was one of the most popular financial practices in pre-war Russia. But higher rates tend to reduce consumption. The only exception to this rule during the last decade of the pre-war period was in the excise on sugar, which gave increasing returns in spite of the high rate of 1 ruble 75 kopecks a pud,<sup>12</sup> solely because of increasing domestic consumption, which in 1903 reached an average of 13 pounds per capita and in 1912 an average of 18 pounds.

If we examine the progress of receipts from taxes between 1885 and 1913 we get the following table, on a per capita basis (exclusive of Finland, which had her own budget):

#### PER CAPITA BUDGET RECEIPTS

Year	All Revenues (Rubles)	Direct Taxes (Rubles)	Indirect Taxes (Rubles)
1885 .....	5.05	1.22	3.37
1890 .....	5.49	0.80	4.17
1895 .....	5.97	0.95	4.93
1900 .....	7.55	1.00	5.88
1905 .....	8.65	0.88	7.07
1910 .....	10.65	1.31	8.29
1913 .....	11.38	1.56	9.13

<sup>12</sup> A pud is 40 Russian or 36 English pounds. (EDITORS.)

During the same period, the population increased by 63.5 per cent (from 107 million to 175 million), while the total per capita revenues of the state grew by 125 per cent. Unfortunately, Russian economic statistics lack data that would enable us to throw light on this table from an economic or a social point of view. The most widely accepted figure of the national income in Russia for 1913 is 15 billion rubles, and of this total, taxes took 13.5 per cent. But this ratio does not enable us to draw definite conclusions as to the tax burden. It is only from a multitude of indirect indications reflecting the people's everyday life that we can get a full measure of the heavy burden of taxation on the lower strata of the population, a burden which, just as in other countries, was not limited to state taxes alone.

The most important point in relation to this question of tax burden was not, however, the absolute figures of taxation, but rather, as we have already shown, the enormous proportion of the sums taken from the people by way of taxation which was unproductively spent. The ultimate effect of this taxation was to sterilize the country's productive forces and to make social conditions worse as time went on. Numerous official documents show that the government was conscious of the excessiveness of the burden on the people; but the government never drew the proper conclusions and whenever a lowering of taxes took place it was done either with a view to favoring the propertied classes or else as a result of a popular revolt, as in 1905.

#### RECEIPTS FROM SOURCES OTHER THAN TAXES

(Million rubles)

Source	1885	1900	1913
Railways .....	10.6	361.7	826.1
Mails, telegraph and telephone..	25.3	50.0	119.7
Forestry receipts .....	12.9	82.7	92.4
Other government property.....	32.0	65.6	143.5
Miscellaneous .....	143.9	147.8	124.7
Total .....	224.7	707.8	1,306.4

Here the most conspicuous figure is the one which in 1913 not only yielded 64 per cent of all the income from

sources other than taxes but which also showed the most rapid growth from 1885 to 1913. It is the receipts from the government-owned railways. The extraordinary growth of gross receipts from these was due first of all to the forced construction of new lines during the period and to the buying up of privately owned railways by the government. (In 1913 the total mileage under operation was: state-owned, 43,207 versts;<sup>18</sup> private, 20,642 versts.) The influence which the transfer of privately owned railroads to the government had on the budget receipts can be gauged by the following example: In 1913 the receipts from the government-owned railways increased by 71.2 million rubles, but 40.7 million of this increase came from the Warsaw-Vienna railroad, newly acquired by the government, the receipts from which were for the first time entered in the state budget in that year. Without this item the increase in government railway receipts in 1913 was only about 30 million rubles.

For a long time the government railway system had been a great strain on the budget, for it had brought a large yearly deficit. Moreover, the construction of new lines and the purchase of privately owned ones had been the cause of a considerable portion of the national debt. Of the total 8,824.5 million rubles of debt on January 1, 1914, the railroad obligations amounted to 1,671.5 million, or about 19 per cent. During the last few years before the World War this railroad debt called for an average of 80 million a year in payment of capital and interest.

It was in the course of these last years that the government decided to get rid of its railway deficit by any and all means. It adopted the rather simple expedient of eliminating all expenditures for maintenance and replacements, and by this artificial method introduced a steady lowering of the operating ratio [i.e., the percentage of operating costs to receipts from operation—EDITORS]. In 1910 this ratio was 68.8 per cent and afforded a surplus of 12.7 million rubles. It decreased in subsequent years, until, in 1913, it was 62.4 per cent, and resulted in a net income of 68.2 million. In

<sup>18</sup> A verst equals 3,500 feet, or nearly two-thirds of a mile. (EDITORS.)



that year the gross income of the state railways was 826.1 million rubles, or 19.1 thousand rubles per verst. Operating expenses were 515.7 million rubles, which meant 11.9 thousand rubles per verst; and the income was thus 310.4 million rubles, which gave 5.55 per cent interest on the capital invested in construction. Since in that year the government's payments on capital borrowed for railway construction amounted to 242.2 million rubles, or 5.6 thousand rubles per verst, the net profit was 68.2 million rubles, or 1.5 thousand rubles per verst. In the same year private railways yielded a net profit of only one thousand rubles per verst. But this "success" of the government railways came to cost Russia very dearly during the World War, when the poor condition of the railways was one of the chief handicaps in the conduct of military operations on enormously expanded fronts.<sup>14</sup>

The net profit from mails and telegraphs, including telephones, was another large source of revenue in the government budget. In 1913 it was 40.6 million rubles. The mails and telegraphs were being exploited with a clearly fiscal purpose in view. The country was poorly served, especially in rural districts. The per capita per annum average of mail in the empire in 1913 was 12 letters and less than three copies of newspapers.

The government had at its disposal vast expanses of forest, which in 1913 covered 335.4 million desiatins,<sup>15</sup> though only 118.4 million desiatins had been even partially surveyed and cared for. The exploitation of this resource

<sup>14</sup> In the United States the average ratio of operating expenses to operating revenues of all railroads ranged for many years within two or three points of 66 per cent. It rose during the World War, reaching 94 per cent in 1920, and has since fallen to 74 per cent and for many large roads is even less. The correct theory of railroad operation is held to be that maintenance expenditures, sufficient to keep the roads in perfect operating condition, should be made each year and charged to operation, thus avoiding a depreciation reserve. This is a high ideal, to which some American roads approach. Betterments proper may under this theory be charged to capital. But the reduction of the operating ratio by failing to keep up replacements and proper maintenance, year by year, is an "artificial method" of making a showing of profit which in the long run will obviously prove fatal. (EDITORS.)

<sup>15</sup> A desiatin is 2.7 English acres. (EDITORS.)

yielded, in 1913, a net profit of 64.3 million rubles, i.e., an average of 19.2 kopecks per desiatin of the entire government-owned forest lands, or 33.8 kopecks per desiatin of surveyed and actually exploited forest. Even this low profit was achieved only by considerable effort during the last decade before the World War. Before that the profits were altogether negligible. The strained condition of the budget continually prevented the government from developing the exploitation of the forests in such a way as to serve the interests of the country.

In concluding our survey of the Russian state receipts not derived from taxes, three more sources must be mentioned. In 1913 a commercial profit accrued from the State Bank in the amount of 31.2 million rubles; 26.6 million came in from private railway companies as the government's share in their profits, as fixed by law; and government-owned plants, chiefly mines, yielded 26 million rubles.

As already mentioned, the government revenue derived from sources other than taxes, which in the gross receipts was expressed in huge figures, occupied a very modest place in the net receipts. If we deduct from the total of the receipts for 1913 the operating expenses of the railroads, mails, and telegraphs only, the net revenue derived from sources other than taxes shrinks to only 30 per cent of that derived from taxation. If we then deduct the payments on capital borrowed for railway construction, the figure drops to 19 per cent. This was one of the weakest spots in Russia's pre-war financial system. The government possessed unbounded possibilities of revenue outside of taxation. It owned great expanses of land, forest, and water; it was a large banker, an owner of railroads, mines, factories, grain elevators, etc.; but all this property was, as a rule, badly or not at all organized, and its management was as poor as could be imagined. The mismanagement of government-owned forests was a subject of constant criticism in the state Duma. Harsh criticism of government operations may be found in the pages even of the State Comptroller's reports. The situation was, of course, partly due to the lack of funds caused by the huge

expenditure on armaments and debt services; yet, this was only one of the causes. Another was the amazing inefficiency of government officers. The result was that the budget bore the clear hall-mark of a tax-derived budget. It depressed the productive forces of the country and kept the majority of the people down to a very low standard of living. Throughout numerous decades, indeed throughout the century, the Russian state budget turned a frowning face toward the people. The life of the masses was converted into so much working time for the government. The fact that the pains of this lifelong drudgery were deadened by intoxication by government-sold vodka made the budget a still more sinister influence. Thus the state budget policy of pre-war Russia was undoubtedly one of the factors which accelerated the Revolution.

### III. PRE-WAR LOCAL GOVERNMENT AND ITS FINANCES<sup>16</sup>

Operations of local finance in pre-war Russia developed comparatively late; that is, not until the second half of the nineteenth century after the fall of serfdom, when public activities became something of a possibility in Russia. Zemstvo or district self-government was introduced in 1864 and municipal self-government in 1870, though even then not

<sup>16</sup> It will be helpful to outline local government as it existed in Russia under the old régime and in place of which the new régime has built a new system. The following is adapted from the *Statesman's Yearbook* of 1902 and is there oriented as applying to 1900. Only such features as relate directly to terms used in this book will be given. The empire was divided into governments or provinces (gubernias or oblasts) and districts (uezds). There were 70 governments (oblasts), each headed by a governor-general. At the bottom of the system were the rural or village communes (the old mirs), in which the peasants met in assemblies to discuss and decide local affairs. The communes were united into volosts, of which "canton" seems to be an approximate translation.

The administration of the economic affairs of the district was to some extent in the hands of zemstvos, or assemblies composed of representatives elected by three classes: the peasants, the householders in the towns, and the landed proprietors or nobility. The president of the group of landed proprietors or nobility was ex officio the presiding officer of the zemstvo. Towns and cities had an organization similar to the zemstvo, and the representatives elected by classes sat in the municipal Duma.

An outline of local government as it is to be reorganized by the Soviets will be found in chapter ten, below. (EDITORS.)

throughout the empire. The duties and problems of the local governments under the new law were many, but they may be divided into two chief groups: those which were of general national import, and those which were specifically local in character. In the former class were such matters as the maintenance of the army, of the police, and of certain government establishments; and the demands for such expenditures of national concern were so great compared with the financial resources which city dumas and zemstvos had at their disposal that the local social and cultural needs of the population were served only to a small extent. Cities remained without improvements, local roads were in an indescribably bad condition, the country suffered from ignorance and disease. For example, there were more than one thousand municipalities in Russia, but only two hundred and thirty of them had running water, only about a hundred towns had electric lighting, and only a score had street cars. Throughout entire provinces dense illiteracy characterized the rural population.

The sources of revenue left at the disposal of municipal governments were of two sorts: receipts from properties and undertakings owned by the municipalities, and local taxes, chief among which were the city tax on real estate and the trade license tax on commercial and industrial undertakings.

The following table presents data as to the revenues of 971 municipalities in 1912:

#### REVENUES OF MUNICIPALITIES IN 1912

Source	Million Roubles	Percentage of Total
Municipal undertakings .....	85,458.2	31.0
Municipal property .....	49,189.7	17.8
Government subventions .....	65,478.2	23.7
Tax on city real estate.....	39,012.3	14.2
Trade license tax .....	15,917.0	5.8
Other taxes and duties.....	20,624.7	7.5
Total .....	275,680.1	100.0

In consequence of the developing municipalization of the communities, city budgets contained many items of gross

receipts, and the net revenues were as a rule quite modest. In 1913 only 35 cities out of 963 had budgets exceeding one million rubles; 146 cities had budgets of from 50 to 100 thousand rubles; and in 174 cities the budget varied from 1,000 to 10,000 rubles.

The expenditures in the municipal budgets were as follows:

#### MUNICIPAL EXPENDITURES IN 1912

Object	Thousand Rubles	Percentage of Total
Operation of municipal undertakings	39,413.3	14.3
Care of municipal property.....	23,556.7	8.5
Improvements .....	26,080.0	9.5
Taxes paid by the municipalities....	2,935.7	1.1
Municipalities' share in the support of government establishments....	3,273.2	1.2
Municipal government .....	20,397.7	7.4
Police .....	16,298.8	5.9
Army quartering .....	10,554.0	3.8
Asylums, poorhouses, etc.....	8,735.5	3.2
Fire prevention .....	7,204.6	2.6
Sanitary and medical care.....	34,554.0	12.5
Schools .....	33,525.6	12.1
Payments on loans .....	41,909.9	15.2
Other expenses .....	7,510.9	2.7
Total .....	275,949.8	100.0

At the beginning of 1913 the bonded indebtedness of Russian municipalities amounted to 444.6 million rubles, of which 369.4 million, or 83 per cent, fell to the eight largest cities. During 1913 fifteen new municipal bonded loans to the aggregate amount of 119 million were authorized, but not all of them were actually issued. The table on the following page shows the markets in which Russian municipal bonds were distributed.

These bonds bore interest at from 5 to 6 per cent, and the more important of them were quoted on the exchanges of London, Brussels, Paris, and Berlin.

## PLACING OF MUNICIPAL BOND ISSUES 1908 TO 1912

Year	In Russia (Million Rubles)	Abroad (Million Rubles)	Total (Million Rubles)	Percentage of Foreign Loans
1908 .....	3.2	69.1	72.3	95.6
1909 .....	7.0	26.6	33.6	79.1
1910 .....	41.8	31.5	73.3	43.0
1911 .....	10.9	14.6	25.5	57.3
1912 .....	2.1	55.1	57.2	96.3
Total ...	65.0	196.9	261.9	75.0

The domestic market for such loans was very limited, and only the largest cities could get accommodation abroad. An overwhelming majority of cities therefore remained without credit, and in order to meet this difficulty, a state fund for municipal and also for zemstvo credit was established on January 16, 1913, which during the first year of its activity made 161 long-term loans to the total amount of 19.4 million rubles.

Zemstvo (provincial assembly) finance was based on land taxation, and since an overwhelming majority of zemstvo government members belonged to the class of large or medium estate owners, it was natural that their estates were taxed on a much lower scale than those of the peasantry. In 1911 the average zemstvo tax was 51.6 kopecks per desiatin of peasant land, while the corresponding figure for estate land was 46.9 kopecks. In earlier years this inequality had been even more striking. In 1890, for instance, peasant land paid a tax of 17.9 kopecks per desiatin, and the private estates only 9.8 kopecks.<sup>17</sup>

The general scheme of the revenue side of the zemstvo budget is represented in the following table compiled from data of the estimates for 1913:

<sup>17</sup> Although it is not within the province of the editors to criticize their authors, it seems necessary to point out that while the peasant took up only such land as he could use, the "estates," after the reforms of the early 'sixties, were left with many poor or financially useless tracts included. This may not account for the whole discrepancy, but covers some of it. (EDITORS.)

**ZEMSTVO REVENUES, 1913, BY SOURCES**

Source	Thousand Rubles	Percentage of Total
Real estate taxes.....	184,339.4	64.4
Trade license taxes.....	5,748.0	2.0
Income from zemstvo property....	865.5	0.3
Subventions to zemstvos.....	69,412.8	24.3
Other revenues .....	25,638.2	9.0
Total .....	286,003.9	100.0

Out of this revenue the following budget expenditures (estimates for 1913) were made:

**ZEMSTVO EXPENDITURES, 1913, BY OBJECTS**

Object	Thousand Rubles	Percentage of Total
Schools .....	87,724	30.6
Medical care .....	70,218	24.5
Veterinary service .....	7,578	2.6
Roads .....	20,300	7.1
Economic measures .....	21,869	7.6
Asylums, poorhouses, orphanages....	4,411	1.5
Houses of correction, jails, etc.....	1,685	0.6
Zemstvo government .....	22,179	7.7
Participation in the maintenance of state government establishments...	11,941	4.2
Payments on loans.....	20,735	7.2
Other expenses .....	17,945	6.3
Total .....	286,585	100.0

Besides municipal and zemstvo budgets, there existed also rural (commune) budgets. A survey of these was made only once, in 1905; at that time their general total was put at 45 million rubles, of which 20 per cent went for the hire of herdsmen, 10 per cent for the rural communes' share in the upkeep of schools, etc.

**IV. THE COST OF THE WORLD WAR**

Any attempt at an analysis, or even a plain description, of Russian state finances during the World War meets with

a double difficulty, familiar enough to investigators of war-time finances in any country. First, no satisfactory definition of war expenditures has hitherto been found anywhere. The French writer, Gaston Jèze, is quite right when he speaks, in his book on the war expenditures of France, of "the puerility" of modern methods of calculating war expenditures. We still lack common agreement on what should be put down in this account and what left out of it. Another series of difficulties lies in inadequate reports and statistics. This is especially true with regard to Russia. Here the allocation of funds for the conduct of war followed the laws of September 7, 1885, and February 26, 1890, and was entirely independent of the general budget. Under these laws the Chancery of the Ministry of War set up a special account known as the "War Fund." Expenditures from this fund were made without any of the customary sanctions, even that of the Minister of Finance, being ratified directly by the Emperor on the basis of reports to him from the Minister of War, the Minister of the Navy, or the Extraordinary Council, while at the same time the ordinary expenditures of the War and the Navy Ministries continued as usual. Certain war expenditures of necessity appeared in the estimates of various civil government departments; and, vice versa, certain civil expenditures of various departments were often enough found in the "War Fund" account. Thus, if we limit the definition of "war expenditures" to such only as were put through the state budget, even the simplest analysis or classification of them becomes very difficult. Let us give an example: To calculate the cost of the Russo-Japanese War, a special Russian government commission worked for many years. Its conclusions were not published until 1913. Yet even after such an exhaustive study their account of the expenditures that had been necessitated by the war admittedly includes many items which had no immediate relation to that war while omitting many others which might have been included.

Unfortunately, in the case of the World War we lack the assistance even of such a special commission in dealing with the vast documentary material left over from that period.



It still awaits the co-operative efforts of future investigators. We must content ourselves with the summary calculations found in the financial archives of the former Russian Empire.

These calculations give the cost of Russia's participation in the World War only in so far as it is shown in the budgets, that is, only the war expenditures of the national budgets are given; and this considerably narrows the field of inquiry. Yet, even on this basis, and notwithstanding the fact that we are dealing only with documentary material, the difficulties due to the method of government bookkeeping are very great. War-time budgets show only such expenses as were covered by the ordinary revenues of the government; whereas, the war, once started, devoured not only ordinary revenues but also the funds which had been set aside for war purposes in the budgets of preceding years of peace. We have already seen, above, what large sums for armament were spent by Russia during the last six years preceding the World War. In the course of the war these amounts were, so to speak, consumed, as well as the amounts appearing in the ordinary budgets, the war depleting, as it were, both the current and the reserve funds of national defense. In the Russo-Japanese War, for instance, the naval battle of the Tsushima Strait cost Russia 300 million rubles; but these 300 million rubles, being the value of vessels built before the war, were never entered in the account of the costs of that war.

Before discussing the summary figures of the cost of Russia's participation in the World War, it must be recalled that in Russia, as in other countries, the monetary unit suffered great fluctuations. It is necessary therefore that war expenditure calculations should be expressed in some stable, albeit conventional, unit. Such a conventional unit, in Russian financial statistics, is the pre-war gold ruble or, to be more exact, its purchasing power. Tables of price index numbers, at present so common for all countries, did not exist in Russia during the war of 1914-1917. It was not until after the war and the Revolution that a wholesale price index number was computed by the statistical department

of the central professional union organization of the Union of Soviet Socialistic Republics. This index does not pretend to be infallible, but it is the only one by which we may measure the war expenditures of 1914-1917—a period of many currency fluctuations. This index is as follows:

# INDEX NUMBERS OF PRICES, 1913 AVERAGE AS BASE OR 100

	1914	1915	1916	1917	1918
January .....	Average index of prices for the year, 101	Average index of prices for the year, 130	143	294	2,076
February .....			156	310	2,695
March .....			157	315	3,300
April .....			163	335	4,320
May .....			171	380	5,745
June .....			179	450	7,060
July .....			195	576	8,855
August .....			211	655	10,100
September .....			217	680	9,350
October .....			235	740	9,350
November .....			257	1,020	10,750
December .....			275	1,545	13,500

The following summary table shows the budget expenses of Russia for the war period, the figures being given both in current paper rubles and converted into pre-war rubles according to the index of prices given above:

## BUDGET EXPENDITURES IN WAR YEARS

### A. IN MILLIONS OF CURRENT RUBLES

	1914	1915	1916	1917
Allocated .....	2,546.1	9,374.9	15,267.0	22,734.7
Spent* .....	1,789.6	8,818.4	14,572.8	21,329.0
Expenditure per 24 hours .....	10.6	24.1	39.8	58.4

### B. IN MILLIONS OF PRE-WAR RUBLES

	1914	1915	1916	1917†
Spent .....	1,769.6	6,783.3	7,400.5	4,347.4
Expenditure per 24 hours .....	10.6	18.5	20.2	11.9

\* Ratio of expenditure to amount allocated: 1914, 70.8 per cent; 1915, 94.0 per cent; 1916, 95.5 per cent; 1917, 93.8 per cent.

† The conversion for 1916 seems to have been made monthly. In 1917 the average used was 4.88 paper rubles to 1 pre-war ruble. (EDITORS.)

Thus the total of Russia's budget (allocated) expenses on warfare during 1914–1917 was 49,922.7 million rubles current paper, or 20,300.8 million pre-war rubles.

The data on war-time expenditures of 1918 are still in the shape of raw material. We know that during the first three months of 1918 extraordinary, "above-the-estimate," allocations for war purposes were made to the amount of 4,444.5 million rubles. The actual expenditures, however, are known only for the month of January of that year. They were 2,533.9 million rubles, or about 122 million, at the pre-war standard, or 4 million per 24 hours.

All of the war expenditures of 1914–1917 entered in the "War Fund" account can be divided into two main groups. The first would contain the budget expenditures of the War and Navy Ministries; the second, those of all other departments. Unfortunately, we can trace this division only with regard to sums allocated but not with regard to what was actually spent. Below is the corresponding table:

#### WAR EXPENDITURES

		War and Navy Departments			All Other Departments
		Million Paper Rubles	Percent- age		
				Million Paper Rubles	Percent- age
1914	.....	2,293.5	90.1	252.6	9.9
1915	.....	7,890.8	84.1	1,484.1	15.9
1916	.....	12,200.1	79.9	3,066.9	20.1
1917	.....	16,413.1	72.2	6,321.5	27.8
Total		38,797.5	77.7	11,125.2	22.3

Thus, about one-fifth of all the military expenses of Russia fell on the estimates of civilian departments. This is very significant. It makes it evident, first, that war, especially such a war as that of 1914–1917, with its influence permeating the whole economic and social structure of a country, causes extraordinary expenses not only for the direct financing of military operations but for other needs only indirectly connected with the conduct of war; and, second,

that during the war the ordinary resources of the state destined to cover the needs of civilian departments of the government are affected and, as a result, the ordinary state budget is drained. Yet the expenses of civilian government departments are very difficult to reduce during the war. In fact they often grow considerably, the increase being in part perfectly legitimate. But not infrequently, owing to the reckless attitude toward all spending which, in times when billions are devoured, prevails throughout society and especially in government circles, a chasm arises between ordinary income and ordinary expenditure which necessitates drawing upon extraordinary resources to cover even such expenses as have no direct—and sometimes not even an indirect—bearing on the war.

The table given above shows that the percentage of participation of civilian departments in the "War Fund" increased from year to year, beginning with 9.9 per cent and reaching 27.8 per cent. This growth indicates not only the increasing influence of war on the whole life of the state but also the rapid disintegration of the ordinary state budget. To meet the draining of ordinary sources of income the government concentrated its financial game upon two trump cards: paper money issues and foreign credit.

#### V. THE FINANCING OF THE WORLD WAR, 1914-1917

It has already been seen that Russia's participation in the World War during three and a half years required the expenditure of 49.9 billion rubles paper, or 20.3 billion pre-war rubles, as recalculated on the basis of index numbers of prices. The ordinary state budget before the war was in such condition as to exclude any possibility of an appreciable broadening of its tax basis so as to make taxation a source of finance for the war. The tax system faithfully reproduced the country's social structure, with its essential division of the people into taxpayers and exempt classes, and lacked elasticity. For a whole century vain attempts had been made to introduce an income tax; and even the thunderbolt of the World War failed to open the pockets of the Russian bourgeoisie. This fact alone would have been

sufficient to render the normal Russian tax system powerless to face the avalanche of war-time requirements; and this organic financial difficulty was aggravated from the very first days of mobilization by another—the overwhelmingly important and responsible part which the so-called “drink income” played in the budget. The ordinary revenues of 1913 amounted to 3,417,360,000 rubles from the following sources:

## ORDINARY REVENUES IN 1913

Source	Thousand Rubles
Direct taxes .....	272,517
Indirect taxes .....	708,101
(Among these, excises on beverages) .....	(53,729)
Customs receipts .....	231,230
Monopolies .....	1,024,883
(Among these, the alcohol monopoly) .....	(899,299)
Property and capital .....	1,043,741
(Among these, government railways) .....	(813,604)
Alienating of property .....	2,857
Peasants' release payments .....	1,194
Reimbursement of expenses .....	116,677
All other revenues .....	16,160
Total .....	3,417,360

Thus the alcohol monopoly in 1913 yielded over 26 per cent of the total receipts. In 1913 the consumption of government-sold vodka reached the enormous figure of 104.6 million pails [a pail or vedro equals 3.25 gallons—EDITORS], an increase over the preceding year of 8.1 million pails, representing an added income of 72.4 million rubles. The total receipts of the government from vodka sales and from excises on other spirits reached 953 million rubles or nearly 30 per cent of the total. If we deduct from the general budget nothing but the operating expenses of the government railways, the ratio of the “drink income” to the whole rises to 34 per cent. All the direct taxes, which in 1913, together with peasants' release payments, brought in 273.7 million, looked insignificant beside the excise and monopoly receipts; the more so since the total direct-tax receipts included 150

million rubles from trade license taxes of which all were ultimately borne by the consumer.

With the general mobilization a temporary prohibition of the sale of spirits and wines was decreed. On August 22, 1914, this prohibition was continued until the close of the war. On September 1 of the same year beer shops and wholesale beer and mead stores in towns were closed. On September 27 rural and town governments were granted the right to petition for a prohibition of sales of intoxicating beverages in their territories; and it was further decreed that licenses for the private sale of alcoholic beverages be limited to terms not exceeding one year and that all licenses previously granted should become void on December 31, 1914. Local governments immediately and very extensively made use of their newly acquired privilege.

Quite apart from any question as to the social desirability of this attempt to liberate Russia from the bonds of intoxication, it is obvious that so far as the budget was concerned the step was so serious that it at once and irretrievably blocked any conceivable scheme for financing the war out of the ordinary budget, forcing the government to strain every nerve merely to fill the gap through new taxes and increases in those already in force. The state income during the second half of 1914 was as follows:

#### ORDINARY RECEIPTS, JULY TO DECEMBER, 1913 AND 1914

(*Million rubles*)

	1913	1914	Less by
Without the income from beverages....	1,300.9	1,034.8	266.1
From government sales of beverages...	474.6	80.9	393.7
From excises on other beverages.....	29.3	14.8	14.5
Total .....	1,804.8	1,130.5	674.3

Thus during the second half of 1914 receipts suffered doubly: from the general harmful effects of war, and from the discontinued government sales of spirits, the second being more serious than the first. The war also curtailed the receipts from railways, from timber lands, from customs, and from stamp duties. These items in the national economy

were the most vulnerable. The foreign trade of Russia was as good as totally paralyzed, causing a decline in customs receipts. Complete subordination of all transport to the requirements of defense curtailed commercial freight receipts. The decrease in stamp-duty receipts reflected the general shrinkage of business. As a general result, the receipts of the state for the whole year not only failed to give the customary surplus but showed instead a considerable shortage. The grand total of all ordinary state receipts in 1913 was 3,417.3 million rubles, and in 1914 was 2,898.1 million, that is, 519.3 million, or 15.2 per cent, less than the preceding year. Receipts from the alcohol monopoly in 1914 gave 503.9 million rubles as against 899.3 million in 1913, a decrease of 44 per cent. As against the estimates for 1914, the total shortage of all state receipts was 674.1, or 18.9 per cent.

Such a situation forced the government to strenuous measures, for otherwise the ordinary budget, besides being useless for financing the war, would itself become a charge upon the extraordinary resources that were being procured for that war. The government, first of all, hastened to reinforce the ordinary budget from such resources as by their very nature should have been used for financing the war had the ordinary budget been able to show a healthy balance. Unused amounts from appropriations of preceding years were transferred into the ordinary budget—a total of 54.3 million rubles, including 36.1 million which represented the saving effected by a law of July 27, 1914, devised to strengthen the resources of the national Treasury. Another measure consisted in the curtailment, for the year 1914, of ordinary and extraordinary expenses not related to the war. These latter savings were as shown in the tabulation on page 42. Thus, as against a shortage of revenue amounting to 674.1 million rubles in the estimates for 1914, a saving of only 539.6 million was achieved. The balance was restored by drawing upon the “free reserve” of the State Treasury.

Even the apparent saving of 539.6 million rubles shown above was in part merely a bookkeeping transaction, for 187.5 million of it resulted from a shifting of appropriations

from the ordinary budget of the War and Navy Ministries to the War Fund account under the heading of current maintenance.

### SAVINGS EFFECTED TO PROVIDE WAR REVENUES

(Million rubles)

	Allocated in Estimates for 1914	Actually Spent
Ordinary expenditures .....	3,309.5	2,927.1
Extraordinary expenditures .....	304.0	287.4
Out-of-estimate credits .....	140.6	
Totals .....	3,754.1	3,214.5
Resulting saving .....		539.6 or 14.4%

It was found especially difficult to cut down the operating expenses of the alcohol monopoly. The expenses in 1913 were 235 million rubles; in 1914 they were 223 million; in 1915 they still stood at 106 million; and even in 1916 were brought down only to 40 million. This continuing expense the Minister of Finance explained by the government's obligations on previously signed contracts for deliveries of alcohol and by the huge contingent of employees who could be dismissed only gradually.

A situation resulted in which the government was forced to take some effective measures to stimulate receipts. This was the hardest problem in Russia's war finance. The first difficulty was that taxation of the masses had, even before the war, been brought to a point where a further increase in rates could hardly add appreciably to income. Another trouble was that mobilization drew workers away from an enormous number of peasant farms and reduced the tax-paying capacity of that class of the population. Tax remission and even direct subvention to families of mobilized men, rather than increased taxation, had to be considered. Taxation of propertied classes, negligible before the war, could not be increased in war time because of the amazing shortsightedness of the propertied people themselves and of the government which represented them. The war brought sudden changes in the country's economic functions and



radically altered the field in which the financial system of the government must work. Essential financial reforms were required if there was to be an adjustment to new conditions and new problems. But for such radical steps the government lacked both courage and wisdom, even at a period which brought the greatest trials upon the country. Pressed with the need for increasing its receipts, the government, through three years, procrastinated, refusing to face the unpalatable necessity and seeking by all means to leave intact the historically evolved taxation system.

What, then, were the actual steps which the government took in the realm of direct taxation which offered any chance of partially compensating for the loss of the "drink" revenues? On October 4, 1914, without convoking the state Duma, it raised the tax on city real estate, except in the Polish provinces, from 6 per cent to 8 per cent on the average net rentals. Simultaneously, the wagon tax on the nomad population was raised from 4 and 6 rubles to 8 rubles per wagon. The tax on apartments was raised by 50 per cent, with the exception of classes I and II, in all cities and towns. In the same decree the government raised by 60 per cent the basic trade license tax, and the supplementary trade tax on businesses required to report their income, and imposed a surtax on those not so required, as well as a percentage duty on the same undertakings. The increase of the supplementary tax on undertakings required to present reports was accompanied by a reservation that the tax must not exceed 30 per cent of the taxable profit of the undertaking. The merchants' class licenses (guild certificates) were raised in price, those of the first guild from 75 to 100 rubles, those of the second guild from 30 to 40 rubles. For the first time cinema theaters were taxed.

This was as far as the measures went to increase direct taxation. From these increases the government expected a surplus of 86.7 million rubles in 1915, bearing in mind, however, the possibility that war-time conditions might lower the general yield of trade taxes.

Toward the close of 1914, namely on December 24, the government raised by 50 per cent the assessment tax on

peasants<sup>18</sup> in a number of Siberian districts and the per desiatin tax on semi-arid and unarable lands of Central Asia, and increased by 100 per cent the tax on irrigated lands in that region. Taxes in the Caucasus were raised 100 per cent on private estates and 60 per cent on peasant land. The assessment tax on Caucasian natives was raised 11.5 per cent.

If, in addition to this, we mention the two circulars of September 1, 1914, in which the Ministry of Finance decreed, on the one hand, that the officers charged with the collection of taxes should collect without fail and, on the other hand, that they should, without granting remissions as a general rule, consider the situation of rural taxpayers enfeebled by the mobilization, we come to the end of whatever action was taken by the government with regard to direct taxation. With few exceptions the propertied classes remained untouched by these measures; so that the government of Nicholas II turned out to be less progressive than that of Alexander I, a hundred years earlier, which, during the war with Napoleon, had introduced an income tax on estate landlords.

The government showed itself much more energetic and ingenious with regard to indirect taxation and duties. In the beginning it had chosen the path most often trod and turned to that magic wand so famous in the history of Russian finances, duties on beverages. On July 27, 1914, it decreed a sweeping increase in these excises, ignorant as yet of the near future, when, on August 22, it was to embark on the daring exploit of prohibition, thus completely repudiating the drink revenues. On July 27 the government resolved to raise the duty per degree of water-free alcohol from 11 kopecks to 20 kopecks. Subsequently, the tide rose all along the line of the then existing excises: on yeast, from 20 kopecks to 32 kopecks; on cigarettes and matches, 100 per cent; on sugar, from 1 ruble, 75 kopecks, to 2 rubles; on petroleum products, from 60 kopecks to 90 kopecks; on breweries, from 1 ruble, 70 kopecks, to 3 rubles per pud (40 Russian or 36

<sup>18</sup> See note 8, p. 19.

English pounds) of malt; on makhorka—the cheapest grade of tobacco obtainable—from 9 to 12 kopecks per pound; and a supplementary excise on higher grade cigarettes of 20 kopecks per pound was imposed.<sup>19</sup> An added revenue of only 94.8 million rubles was expected in 1916 from this increase in excises, showing clearly the hopelessness of finding in them a substitute for the drink revenues.

A more serious thing was another attempt of the government to find the necessary cash, namely, a temporary tax of 25 per cent on existing railway passenger tariffs including baggage and any goods transported on baggage certificates,<sup>20</sup> and an extra tax on slow freight, fast freight, and freight accompanying passengers, differentiated according to the nature of the goods. A yield of 228 million rubles was anticipated in 1915 from these railway taxes. There was also a special temporary duty on the transportation of domestic cotton by rail, at the rate of 2 rubles 50 kopecks a pud, which promised an additional revenue of 30 million rubles for 1915. An increase in postal and telegraph rates was to give an addition of 27.5 million rubles and certain customs duties, which were increased or newly created, were expected to yield another 35.6 million rubles.

Thus the financial program for 1915 was to yield the following additional amounts, in million rubles:

Direct taxation, new.....	86.7
Indirect taxation, new.....	94.8
Freight tariff additions.....	258.0
Customs duties, new.....	35.6
Mails and telegrams, new.....	27.5
Total .....	502.6

As the shortage in total ordinary revenues for 1914 was, as we stated above, 674 million rubles, the program for 1915

<sup>19</sup> The original fails to give all the units to which the rates apply. (EDITORS.)

<sup>20</sup> This practically meant considerable freight traffic, because since the war-time collapse of regular freight transportation commercial goods of the more expensive and urgent class were often sent as "baggage." (TRANSLATOR.)

failed to bridge even this gap in the budget, while the harmful effects of war were to increase with time.

There was another weak point in the program of taxes to take the place of the drink revenue. The latter was, generally speaking, without effect on prices of commodities or on the purchasing power of the ruble. Rather it may have been one of the conditions producing low prices, for all the money spent for drink was diverted from the other markets. The new tax measures, on the contrary, worked perhaps fully 100 per cent in the other direction. They affected the whole range of easily shifted taxes and thus accelerated the rise in the cost of living, which was inevitable anyhow at a time when war was annihilating enormous material wealth and multiplying paper currency.

During 1915, the government early became convinced that the projected measures could in no wise re-establish equilibrium in the ordinary state budget. On the contrary, the growing experience of war time proved that the breach in the budget was to grow wider and deeper as time went on, and the necessity of meeting expenses through loans realized by means of paper currency issues led not only to a rapid growth of expenditure on account of the rapidly increasing national debt, but also, through inflation, to a higher cost of upkeep of the government machine and an increase in many other expenses of the state. Simultaneously, the budget began to suffer considerable losses from still another cause: the enemy penetrated steadily into the territory of the empire, automatically causing a curtailment of revenue to the state which was only partially balanced by a corresponding curtailment of government expenditures in the occupied districts. The Minister of Finance, in an explanatory note to the budget of 1916, reported that the shortage of revenue from such territories would amount, in one fiscal year, to 141 million rubles as compared with peace times, and to 69 million as compared with 1915. The occupation of certain railway lines by the enemy also caused a shortage in railroad receipts of 145 million rubles, while operating expenses were cut down only 60 million.

In making up the estimate for 1916 the Minister of Fi-

nance put the excess of expenditures over receipts in the ordinary budget at 328 million rubles, and again the government was compelled to seek further sources of income. But again it still remained true to its tradition, which called for the greatest possible caution with regard to the pecuniary interests of those social classes which it had already consistently spared during the first period of the war. The pre-war policy of "the most favored"<sup>21</sup> class was continued.

The government had found it possible, by availing itself of the extraordinary procedure permitted under Article 87 of the *Fundamental Laws*, to decree sweeping increases in indirect taxes and in shiftable direct taxes without the participation of the State Duma. Now, however, when the necessity for interfering with the interests of the propertied classes became urgent, action was postponed as "necessitating complicated preparatory work of investigation of whole branches of industry, and the presentation of the main proposals of the projected measures, as well as of the separate bills connected therewith, to the legislative assemblies, after their preliminary consideration (in accordance with the expressed wish of the State Duma), in a conference of representatives of legislative assemblies with those of science and industry."<sup>22</sup>

The government declared that its new tax program would be built on an effort to find "sufficiently abundant sources for the upkeep of the ordinary income budget based on principles of practical justice and equalization, and avoiding overburdensome taxation."<sup>23</sup> The essence of this program was the introduction, finally, of the income tax, with a simultaneous increase of the inheritance tax.<sup>24</sup> However, it was also proposed at the same time to increase the trade taxes, and to some extent the land and house taxes, and to make

<sup>21</sup> The author here makes use of the accepted diplomatic phrase, "the best (or most) favored nation." (TRANSLATOR.)

<sup>22</sup> From the explanatory note to the government's budget estimate for 1916, p. 21.

<sup>23</sup> *Ibid.*, p. 129.

<sup>24</sup> This is the first mention of an inheritance tax. Possibly it is covered under "other duties" in preceding tables. See table of "Inland Indirect Taxes," p. 23, Section II, above. (EDITORS.)

permanent the temporary taxes on capital loans and on men freed from military service. Conscious of the insufficiency of these measures, the government also let it be known that "the Minister of Finance is also considering the introduction of a single payment war tax."<sup>25</sup> This was the first part of the new tax program. The second part consisted of an increase in the stamp duties and the introduction of new excises on electric current, textiles, potato-molasses, and gunpowder. An increase was also projected in certain customs duties, first of all on brick tea and loose tea. The series was crowned by the introduction of new railway tariffs. In addition the government was planning seriously to introduce certain fiscal monopolies, especially ones on tea and matches.

Obviously this second tax program was a gesture of true financial despair, as it was nothing more than a wholesale increase in all existing taxes reinforced with a number of new excises and, as a spice to all this, a vague project for an income tax and some talk about the extraordinary single-payment war tax. Even so these measures aimed merely at a balancing of the ordinary state budget, for in making public its new program, the government declared that the military expenditures "could not be covered from any permanent sources and would of necessity have to be met through credit."<sup>26</sup>

The decree of Fate was that the new tax program<sup>27</sup> of the old government should remain on paper.

Let us turn now to the figures of the ordinary state budget during war years. They are incomplete and defective in many ways, for the last regular State Comptroller's report of receipts and expenditures was written and published as far back as 1914, and after that all reports were of a preliminary nature only.

<sup>25</sup> Presumably this means a "capital levy" as that term is used in English finance. (EDITORS.)

<sup>26</sup> From the explanatory note to the budget estimate for 1916, p. 132.

<sup>27</sup> That is, that part of the budget containing the income tax which was postponed, as explained on p. 74, below, because, in February, by the Russian or Julian calendar, or March 12, by the Gregorian calendar, 1917, Tsardom was overthrown by the revolution. (EDITORS.)

The reports show receipts and expenditures in 1915 as follows:

## BUDGET OF 1915

(Million rubles)

Items	Estimate	Supplementary Appropriations	Execution
Ordinary receipts .....	3,132.2	....	2,827.7
Ordinary expenditures .....	3,068.0	236.1	2,642.7
Extraordinary receipts .....	9.5	....	196.4
Extraordinary expenditures .....	134.4	64.1	193.9
Total receipts according to estimate	3,141.7	....	....
Total receipts, actual.....	.....	....	3,024.1
Total expenditures according to estimate, with supplementary appropriations .....	3,502.6	....	.....
Total actual expenditures .....	.....	.....	2,836.6

Thus according to the estimate and the subsequent out-of-estimate appropriations the imperial budget showed an excess of expenditure over income of 360.9 million rubles. The same budget as executed gave an excess of income over expenditure of 187.5 million rubles. The sources of such a sharp difference between the plan and its execution lay on the side of both the receipts and the expenditures. The ordinary receipts, as projected in the estimate, did not materialize; the income fell short by 304.5 million rubles. On the other hand, the extraordinary receipts exceeded the estimate by over 186.9 million rubles. This was due to the fact that in 1915 two unexpected items were included in the extraordinary receipts: 48.9 million rubles from currency stamps issued to take the place of small coins which had totally disappeared from circulation,<sup>28</sup> and 145.8 million rubles from sales of foreign currency by the government to private persons and undertakings who used it to make their foreign payments.<sup>29</sup> This currency came to the government in the first place through its foreign loans. It was then entered at

<sup>28</sup> The disappearance or great scarcity of small coins is a characteristic and well-known phenomenon of the early stages of war in all countries. (EDITORS.)

<sup>29</sup> Obviously 48.9 plus 145.8 makes more than 186.9, which, however, is correct. See preceding table. (EDITORS.)

nominal rates in the receipts of the state and subsequently sold to private parties at a higher rate, thus becoming a peculiar source of income to the government.

On the side of expenditure, the following changes took place during the year: the government transferred part of the expenditures of the ordinary budget to the War Fund account, such transfers amounting during 1914 to 185.1 million rubles and during 1915 to 510.5 million rubles. This method of giving the ordinary budget an appearance of balance we have already described above.

The ordinary state revenues in 1915 presented the following picture:

#### COMPARISON OF ORDINARY RECEIPTS, 1914 AND 1915

(*Million rubles*)

	Receipts in 1915 Exceeding Those of 1914			Receipts in 1915 Showing a Decline from 1914		
	1914	1915	Differ- ence	1914	1915	Differ- ence
Duties on passenger and freight traffic..	31.4	224.8	193.4	.....	.....	.....
Railway gross receipts	733.3	783.2	49.9	.....	.....	.....
Sugar excise .....	139.5	186.1	46.6	.....	.....	.....
Trade taxes .....	166.3	212.0	45.7	.....	.....	.....
Other direct taxes....	77.2	104.8	27.6	.....	.....	.....
Tobacco excise .....	92.8	114.2	21.4	.....	.....	.....
Other duties .....	105.2	125.6	20.4	.....	.....	.....
Customs duties .....	.....	.....	.....	303.9	283.4	20.5
Alcohol monopoly ...	.....	.....	.....	503.9	30.7	473.2
Other receipts .....	744.6	762.9	18.3	.....	.....	.....
Total .....	2,090.3	2,513.6	423.3	807.8	314.1	493.7

Thus in 1915, notwithstanding the increased taxes and tariffs described above, the receipts were less by 70.4 million rubles than in 1914.

The ordinary expenses of 1915 can be seen from the comparative table on the opposite page.

Thus the ordinary expenditures of 1915 were reduced, as against 1914, by 284.4 million rubles, chiefly through a saving effected in the operation of the alcohol monopoly and the transfer of certain ordinary expenditures to the War Fund account.



## COMPARISON OF ORDINARY EXPENSES, 1914 AND 1915

(Million rubles)

	Expenses Showing Increase in 1915 as against 1914			Expenses Showing Decrease in 1915 as against 1914		
	1914	1915	Differ- ence	1914	1915	Differ- ence
Payments on loans...	365.8	516.6	150.8	.....	.....	.....
Other expenses .....	1,708.6	1,729.8	21.2	.....	.....	.....
War and Navy Minis- tries .....	.....	.....	.....	641.5	317.8	323.7
Frontier guard .....	.....	.....	.....	2.8	1.1	1.7
Alcohol monopoly ...	.....	.....	.....	208.4	77.4	131.0
Total .....	2,074.4	2,246.4	172.0	852.7	396.3	456.4

So the day came when the ordinary budget, draped in its official cloak of apparent well-being, could no longer cope with its problems. By 1916, with economic disintegration reaching a threatening degree, the picture presented by the budget was already completely divorced from actuality; for with the aggravation of the economic and the financial crisis, still further recourse was had to the artificial means of balancing the ordinary budget. Thus in June 1915 the Council of Ministers ordered the obligatory payment of customs duties on imports destined for government establishments. Freight charges on war materials and army transports also artificially raised the income of the ordinary budget. Discounting short-term obligations at the State Bank raised the receipts from that institution to an abnormal figure. Paper currency, partly in the form of small-change treasury certificates, or stamps, became a steady source of income to the ordinary budget. Meanwhile, the transfer of ordinary expenditures to the category of those covered from the War Fund considerably reduced the figures of the budget of expenditures. The combined result of all these manipulations was an extraordinary growth of the ordinary budget and the possibility of showing, on paper, an enormous excess of ordinary receipts over expenditures.

The picture which the ordinary budget presented in 1916—so far as its figures tell the story—can be seen in the following table, in millions of nominal rubles:

	Estimate	Execution
Ordinary receipts .....	3,032.1	3,974.5
Extraordinary receipts .....	159.0	327.0
Ordinary expenditures .....	3,287.9	2,921.8
Extraordinary expenditures .....	358.7	230.0
Total receipts .....	3,191.1	4,301.5
Total expenditures .....	3,646.6	3,151.8
Balance .....	-455.5	+1,149.7

The divergence between the estimated budget and its execution is staggering, but all of this metamorphosis of a budget with a deficit into one with a vast surplus had no actual meaning. Suffice it to say that, according to the budget of 1916, 504 million rubles of expenditures on military estimates were transferred to the War Fund account, while, on the other hand, according to the calculation of Mr. Dementiev, 802 million rubles of the increased receipts were the result of taking money from one government shelf and placing it on another.

Apart from these reasons, this growth of receipts was also undoubtedly influenced by the great depreciation of the ruble, which made the whole surplus merely nominal. The growth of receipts in 1916 as against those of 1915 follows in million rubles:

	1915	1916	Increase
Trade taxes .....	212.0	443.7	231.7
Other direct taxes .....	104.8	115.9	11.1
Duties* .....	125.6	162.0	36.4
Customs receipts .....	283.4	459.4	176.0
From transferred properties.....	32.0	63.7	31.7
Railroads .....	783.2	964.7	181.5
Mails .....	86.9	108.6	21.7
Telegraphs and telephones.....	62.0	78.5	16.5
Duty on passengers and freight.....	224.8	346.6	121.8
Tobacco excise .....	114.2	169.6	55.4
Petroleum excise .....	61.2	80.4	19.2
Sugar excise .....	186.1	202.4	16.3
Profits of the State Bank.....	30.1	121.4	91.3
Other receipts .....	521.4	657.6	136.2
Total .....	2,827.7	3,974.5	1,146.8

\* The original contains nothing more explicit than the word "duties." (TRANSLATOR.)

This shows that wherever the operation of transferring government moneys from one account to another was performed, an accretion of revenues appeared to take place expressed in hundreds of millions. Hundreds of millions were also yielded by the trade license taxes, for they necessarily reflected the business and profits which kept swelling because of the inflation of currency. But whenever it came to any real accounting for the country's assets and consumption, the surplus figures became much more modest.

The ordinary expenditures of the state increased at a fairly moderate rate: as against 1915 they grew by 279.1 million rubles. In this connection it is worth while to quote G. Dementiev: "The expenses of many departments have increased, but chiefly in payments on loans, which amount to 173.4 million rubles. To our amazement, the data of the Ministry of Finance show a reduction of 26 million in the ordinary expenses for railway operation, while receipts therefrom have increased by 181.5 million. This cannot, however, be ascribed to brilliant management of the government railways. The explanation is that in the course of the war, strict distinction between ordinary and extraordinary expenses became obliterated, and very many out-of-estimate appropriations for purposes of the ordinary sort have been and are being transferred to the extraordinary War Fund account, as expenditures caused by war. The same happens to the out-of-estimate credits for the operation of government railways: they are allocated now as ordinary, now as extraordinary War Fund items to cover a deficit in railway operation. For instance, in 1915 there was allocated to railways from the War Fund 55 million rubles, and in 1916, 193 million—an increase of 138 million. If we add these allocations to the usual ones for the operation of railways, the decrease shown above in expenses of 26 million rubles will change into an increase of 112 million."

Data on the execution of the state budget for 1916 are still less complete and exact than those relating to 1915; while as to the execution of the budget for 1917 there are no records properly speaking. The monarchist government had prepared, for 1917, a very explicit project of a state estimate

accompanied by a lengthy explanatory note. But even this note makes a number of reservations to the effect that all the calculations in the estimate are quite arbitrary. This project was never ratified, because the February revolution disrupted the whole legislative machinery of the old régime without creating a new one. The budget was, therefore, handled as a series of temporary estimates of expenditures. Thus the execution of the budget in 1917 can be reproduced only very roughly and with considerable guesswork and statistical license. One such guess was made by G. Dementiev in his booklet quoted above,<sup>80</sup> which was published in the autumn of 1917. Another source of information is in a later document compiled by the department of the State Treasury after the October revolution in connection with the projected state estimate for 1918. The following table contains all the data available on this subject:

## BUDGET OF 1917

*(Million rubles)*

	Preliminary Estimate	Calculations of Mr. Dementiev	Execution as per Note of 1918
Ordinary receipts .....	3,998.6	5,700	4,677.0
Extraordinary receipts .....	6.0	680	420.0
Ordinary expenditures .....	3,734.7	4,800	4,619.6
Extraordinary expenditures .....	343.2	580	332.2
	<hr/>	<hr/>	<hr/>
Total receipts .....	4,004.6	6,380	5,097.0
Total expenditures .....	4,077.9	5,380	4,951.8
	<hr/>	<hr/>	<hr/>
Balance .....	-73.3	+1,000	+145.2

As a commentary on this table, which consists entirely of arbitrary figures, we may use an excerpt from the official communication of the Ministry of Finance of the Provisional Government. This communication was published on September 13, 1917, and contains, among other statements, the following:

<sup>80</sup> The title of this booklet is nowhere given. (TRANSLATOR.)

According to the tentative estimate for 1917, the expenditures of the state were to amount to four billion rubles, of which, however, 500 million consisted of transfer accounts, i.e., payments of the government to the government itself for transportation of armies and war supplies, customs duties on imports ordered by government establishments, and interest on discounting short-term government obligations reimbursed by the State Bank to the government as net profit on such discounts. To strengthen the income budget, the Provisional Government has already taken a number of very essential measures: the rates of the state income tax have been raised; the single-payment war tax has been ratified; the rules have been modified concerning the rate and the collection of a temporary tax on increased profits from commercial and industrial undertakings, and on profits from personal trades; also passenger and freight railroad tariffs have been raised. For the same purpose, that is, of raising the income of the ordinary state budget, the Ministry of Finance is working on a projected modification of the inheritance tax,<sup>31</sup> a duty on accrued property values,<sup>32</sup> certain trade monopolies for the government, the increase of certain excises, etc. Every tax, however, has its limit beyond which new increases will remain without effect and payers will not be in a position to meet their obligations. In any case, even the utmost straining of the people's tax-paying capacity can furnish only part of the means necessary to cover the expenditures of the state; and the balance will have to be procured through further credit operations. Such operations inside Russia, however, appear to be involved in considerable difficulties.

This placid tone of the government communication, in the part relating to the government measures for increasing receipts, changes to a very disquieting one when the same communication touches upon state expenditures:

The uncontrollable growth of expenses may lead to a complete disintegration of national life. For the sake of the welfare of all and every one of us the country must at any price be saved from such disintegration. The old régime has not been overthrown in order to lead Russia into ruin, but to save her from it; yet requests for higher wages have been more and more insistent of late, which, in their turn, raise the cost of raw material and manufactured goods and increase the general cost of living. The rising cost of living is a burden on the whole population and especially affects the expenditures of the government which, in war time, becomes the chief con-

<sup>31</sup> It will be observed that the inheritance tax is never shown separately in any tables. (EDITORS.)

<sup>32</sup> More conventionally an "increment value land tax." (EDITORS.)

sumer of the products of modern industry and which, in order to cover the growing expenses, is forced to resort to increasing paper money issues which tend again to raise the cost of living.

The communication concludes with four precepts of a moral character. This communication of the Ministry of Finance—albeit not any too lucid as to fixing the responsibility for financial ruin, which seems to be attributed either to labor clamoring for higher wages, or else to the government issue of paper currency—establishes perfectly clearly one fact, namely, that behind the sound-looking budget figures showing excess of receipts over expenditures there lurked a financial crisis closely approaching true bankruptcy. The excess of receipts over expenditures in the ordinary budget, which for the years 1915–1917 amounted to over two billion rubles, was, as we already pointed out, of a purely bookkeeping nature. “This surplus,” says G. Dementiev, “would undoubtedly have become a deficit if the expenses of maintaining the army and certain military establishments [1,732 million rubles in 3½ years], as in their peace-time proportions, had not been carried over to the War Fund account, while the payment of interest on short-term obligations [1,224 million in 3½ years] had been put down as ordinary expenditure.”

“The artificial construction of the ordinary budget, which was as a pigmy before the War Fund” which supplied all the military and part of the peace-time expenditures, leads to one conclusion: that the ordinary budget not only failed to finance the war but on the contrary was itself dependent on a system of extraordinary revenues. Therefore, an appraisal of the general financial situation of the country toward the close of 1917 cannot possibly be made by analyzing budget figures. Nor can such appraisal be made even if we add to the ordinary budget the receipts and expenses of the War Fund, as was done by the Ministers of Finance in their explanatory notes to the projects of state estimates for 1915, 1916, and 1917, and as was done by G. Dementiev in his work just quoted. Through such a combining of the two accounts, expenditures and receipts almost balance; yet the Minister of Finance of the Provisional Government

speaks of the country's ruin. Obviously therefore we must find elsewhere a mirror reflecting the financial status of the country as it really was. Such a mirror was the State Bank, where both the normal budget and the War Fund converged, and we turn, therefore, to the following calculations of the position of the Bank in the middle of April 1917, a date chosen because at that time the bookkeeping and balance sheets of the State Bank were still, relatively speaking, in order.

The inadequacy of the state budget was shown not merely in that it proved unable to yield a single ruble for the financing of the war, or in that it did not manage until 1917, by means of a wholesale raising of taxes and tariffs, to fill the gap caused by the loss of the government vodka monopoly, but rather in the fact that the war brought into existence a colossal national debt on which the payments of capital and interest required billions of rubles and led to an overloading of the State Bank with various kinds of liabilities which reduced this central organ of issue to complete helplessness. The liabilities which overwhelmed the Bank may be divided into three main groups: In the first may be put those which were shown on the balance sheet of the Bank; in the second, obligations not thus shown but which were nevertheless payable on demand under the charter of the Bank; and, in the third, claims having no legal foundation under the Bank's by-laws and the general laws of the country, but which the Bank would nevertheless be unable to repudiate because of their peculiar nature.

#### LIABILITIES OF THE STATE BANK

(Based on the balance sheet of April 16, 1917)

	Million Rubles
GROUP I	
Paper currency in circulation.....	11,187
Deposits .....	21
Current account of the State Treasury .....	503
Special funds and deposits.....	637
Current account of government disbursing officers.....	383
Current account of the government savings banks.....	122
Current account of the Credit Chancery.....	64

LIABILITIES (*Continued*)

	Million Rubles
Current account of the French Bank.....	186
Current account of the disbursing department of government railways .....	47
Current account of banks.....	189
Non-interest-bearing current accounts of government and public establishments .....	840
Current accounts of private persons and undertakings.....	366
Unpaid money orders and letters of credit.....	35
Transferable and miscellaneous amounts.....	470
<b>Total of Group I .....</b>	<b>15,050</b>
<b>GROUP II</b>	Million Rubles
Certificates of the State Treasury (serial), in circulation, which the Bank was under obligation to cash.....	590
Bonds of the State Treasury, in circulation in the open mar- ket, which the State Bank was obliged to discount at a rate of interest favorable to the holder.....	2,792
The obligation of granting loans to private banks, against a surety of war loan bonds, for terms of 1 to 2 years after the close of the war; such credits having been opened by the Bank (exclusive of the 531 million rubles already ad- vanced) to the extent of.....	3,783*
The obligation of granting favorable loans to private persons up to July 1, 1918, against bonds of the three short-term war loans and the Liberty Loan. The limit of such even- tual loans was measured by the amount of these bonds in circulation .....	...
The obligation of rediscounting notes of private railroad companies already discounted by private banks.....	93
<b>Total of Group II .....</b>	<b>7,258</b>
<b>GROUP III</b>	Million Rubles
Draft credit obligations (legally speaking, this was a debt of the government which through treasury bonds endorsed by the State Bank had guaranteed the payment of drafts deposited in the English Bank) amounting, on April 16, 1917, to £5,600,000 sterling.....	54†

\* Toward the middle of April the liquid securities against which such credits were opened amounted to 1,400 million rubles in the possession of the Bank.

† At the official rate of 9.46 rubles to the pound sterling the conversion would be 53 million rubles. (Errors.)



LIABILITIES (*Concluded*)

	Million Rubles
The obligation of guaranteeing the solvency of the state savings banks by means of loans to them against securities (of these securities the State Bank held, on April 16, 1917, 1,503 million rubles worth, at a deposit value of 85 per cent) .....	3,828†
The obligation of guaranteeing the solvency of private commercial banks owing deposits on March 1, 1917, to the aggregate value of 8,149 million. This obligation may be estimated at approximately.....	5,000
<b>Total of Group III .....</b>	<b>8,882</b>
<b>Total for all three groups.....</b>	<b>31,190</b>

† There were in the possession of the Bank easily negotiable securities in series to the amount of 295 million rubles and State Treasury bonds to the amount of 635 million rubles.

On the same date, April 16, 1917, the Bank held assets against these huge and complex liabilities of approximately 16,000 million rubles, of which about 13,000 million consisted of accounts owed the Bank by the State Treasury. The gold reserve, not including, however, gold deposits abroad, was 1,102 million rubles.

The composition of the Treasury's indebtedness to the Bank is shown on the balance sheet of the Bank for April 23, 1917, as follows:

## TREASURY'S INDEBTEDNESS TO BANK

	Million Rubles
Discount of Treasury bonds.....	9,243
Grants to the Treasury, temporarily overdue in consequence of excessive expenses .....	1,008
Loans to private banks on special credits.....	545
Serial domestic loan bonds in possession of the Bank.....	90
Non-interest-bearing loans on British credits.....	1,892
Unsold Liberty Bonds.....	227
<b>Total .....</b>	<b>13,005</b>

Against this, the government had on deposit with the Bank various accounts aggregating 954 million rubles, leav-

ing a net indebtedness of 12,051 million. Of this net indebtedness, 9,683 million had been met by paper-money issues from the beginning of the war down to April 23, 1917, leaving a balance of 2,368 million, which the Bank had spent for the needs of the Treasury out of its own resources.

Thus, toward the close of the war the State Bank (and other government and private credit establishments in its wake) had become exhausted by war exigencies; they were choked with various paper assets which, in general circulation, had taken the place of the material values annihilated by war. These paper assets represented, as it were, notes against future wealth and in the meantime Russia was making her military expenditures exclusively on credit.

#### VI. CREDIT OPERATIONS DURING THE WORLD WAR

Turning to the war-time credit operations, it seems expedient, first of all, to give a general résumé in outline of all the national loans contracted and all the credits obtained by the government for the financing of the war. The following are the nominal amounts of internal loans and the upper limits of credits obtained abroad up to January 1, 1917. The operations of the year 1917 (except the first two months, during which the balance of the sixth internal loan of 3,000 million rubles, issued on October 10, 1917, was placed) require special consideration in view of the historic events.

#### SUMMARY OF WAR LOANS PLACED

(*Million rubles*)

	1914	1915	1916	Total
<b>Domestic loans</b>				
Treasury certificates .....	300	550	....	850
Short-term treasury notes.....	800	3,200	5,775	9,775
Bonded loans .....	500	2,500	5,000	8,000
<b>Total domestic loans.....</b>	<b>1,600</b>	<b>6,250</b>	<b>10,775</b>	<b>18,625</b>
<b>Foreign loans .....</b>	<b>491</b>	<b>6,694</b>	<b>2,225</b>	<b>9,410</b>
<b>Grand total .....</b>	<b>2,091</b>	<b>12,944</b>	<b>13,000</b>	<b>28,035</b>

This table, as already stated, gives only the nominal amounts of the internal loans and the upper limits of foreign credits. The actual receipts from loans and the extent to which foreign credits were drawn upon are given in the following table:

## ACTUAL RECEIPTS FROM LOANS

(Million rubles)

	1914	1915	1916	Total
<b>Domestic loans</b>				
Treasury certificates . . . .	266.8	583.2	.....	850.0
Short-term treasury notes	804.7	3,176.0	5,610.6	9,591.3
Bonded loans . . . . .	441.8	2,295.3	4,173.9	6,911.0
<b>Total domestic loans..</b>	<b>1,513.3</b>	<b>6,054.5</b>	<b>9,784.5</b>	<b>17,352.3</b>
<b>Foreign loans</b>				
In England . . . . .	82.0	1,821.6	3,049.9	4,953.5
In France . . . . .	....	236.5	421.2	657.7
In America . . . . .	....	19.5	64.7	84.2
In Japan . . . . .	....	....	122.1	122.1
In Italy . . . . .	....	....	18.7	18.7
<b>Total foreign loans...</b>	<b>82.0</b>	<b>2,077.6</b>	<b>3,676.6</b>	<b>5,836.2</b>
<b>Grand total . . . . .</b>	<b>1,595.3</b>	<b>8,132.1</b>	<b>13,461.1</b>	<b>23,188.5</b>

To these receipts from loans and foreign credits must be added those of the first two months of 1917 when the realization of the second 5½ per cent war loan of 1916 was completed which up to that time had yielded 546.8 million. During the same two months 1,911.8 million were received through sale of State Treasury bonds, and 519.4 million from credits opened abroad.

Thus during the years 1914–1916 and the first two months<sup>88</sup> of 1917, i.e., up to the fall of the monarchy, the following amounts had been obtained on credit for financing the war, as shown in the table on page 62.

<sup>88</sup> The author is apparently using the Julian Calendar, which is 13 days earlier than the Gregorian Calendar used outside of Russia; according to that calendar the first Revolution occurred in February 1917, our March 12. The Tsar abdicated three days later. (EDITORS.)

WAR CREDIT TRANSACTIONS OF MONARCHY,  
INCLUDING 1917

	Million Rubles	Percent- age	Percentage of Total
<b>Domestic</b>			
By treasury certificate issues.....	850	4.3	
By short-term treasury note issues....	11,503	58.0	
By war loans.....	7,458	37.7	
	<hr/>	<hr/>	
Total domestic .....	19,811	100.0	75.7
<b>Foreign</b>			
In England .....	5,379	84.6	
In France .....	751	11.8	
In America .....	84	1.3	
In Japan .....	122	1.9	
In Italy .....	19	0.4	
	<hr/>	<hr/>	
Total foreign .....	6,355	100.0	24.3
	<hr/>		<hr/>
Grand total .....	26,166		100.0

On the face of these figures domestic credit appears to have played a dominant part, providing three-fourths of the total receipts, but whether or not this ratio of three to one represents the real facts is open to considerable doubt. The proceeds of domestic loans are expressed in depreciated rubles, while those of foreign operations are given in rubles at par. The total receipts from the internal issues, converted into pre-war rubles on the basis of the index given on page 36, would be only 11,937 million rubles and the ratio to foreign credits 65 per cent against 35 per cent. But there are certain counterbalancing considerations such as, for example, the fact that very high prices were charged for the execution of foreign war orders for which the credits were chiefly used; that in order to obtain the credits at all Russia had to part with portions of her gold reserves; and that a part of the proceeds of the credits were devoted to payments on account of Russia's pre-war indebtedness abroad. On the whole, although there is no exact information obtainable, it appears likely that the ratio of domestic to foreign credits

used for actual war purposes was something like the three-to-one ratio shown in the table.

Another fact stands out conspicuously in the table just given, namely, that the prevailing form of domestic credit was short-term obligations which yielded the treasury 62.3 per cent of the total amounts received from domestic credit operations. Herein lay the weakest point in the whole system of war finance, for it led to the use of paper currency for fiscal purposes and to the weakening of the central bank of issue. There was nothing which revealed more clearly Russia's lack of financial preparedness for war.

Moreover, the table indicates that the foreign indebtedness toward the close of 1916 had risen so high as to preclude any possibility that Russia could meet her foreign obligations. Even before the war, the extent of this indebtedness had raised doubts as to Russia's solvency, and these huge new issues practically destroyed her credit.<sup>34</sup>

The same appears to be true with regard to domestic loans. The vastness of these and the method of placing them chiefly with the help of paper-money issues doomed Russia either to a protracted condition of currency chaos, or to a surgical operation, as it were, on the debts of the state, with the inevitable destruction of the whole national credit. In short the conditions toward the close of the period were those not merely of a menace of a national bankruptcy but of bankruptcy itself.

As to the particular forms of credit operations to which the government resorted, there were first of all two kinds of short-term national loans. Russia began the financing of the war by issuing Treasury certificates to the following amounts, in millions of rubles:

August 22, 1914.....	300
March 27, 1915.....	300
August 1, 1915.....	250
	<hr/>
Total .....	850

<sup>34</sup> This statement is somewhat extreme, in view of the placing of over half a billion in foreign loans in the first two months of 1917. See pp. 61 and 62, above. (EDITORS.)

At the outbreak of the war such certificates in circulation amounted to 150 million. Thus the sum total of these Treasury certificates (4 per cent, maturing in four years) was one billion rubles. In the eyes of the purchaser, the advantage of Treasury certificates as compared to other loans was that they were acceptable in payments to the national Treasury and at the State Bank at their face value. Therefore, while being an investment, they at the same time increased the amount of money in circulation. Therein lay their weakness from a general economic point of view. Since, however, the interest rate on them was lower than that on the short-term Treasury notes or the war loan bonds, the market very soon showed a tendency to turn them back to the government; and by April, 1917, only 590 million remained in circulation. As a consequence, the government during the latter part of the war discontinued their further issue. The tendency of these to return to their place of issue might have been foreseen by the government, since even pre-war experience had shown that they were chiefly used to do cash service and quickly returned to the Treasury and the State Bank. The government made no attempt to modify the method of issue to suit the changed conditions of the money market and thus failed to take all the possible advantage of this form of national credit. Yet this form had its undoubted advantages in the eyes of a certain group of fundholders, for it gave them a security backed by the government's taxpayers at a completely guaranteed stable rate.

The chief emphasis in short-term credit was, however, put on Treasury notes. The decree of July 23, 1914, suspended specie payments for paper money, and at the same time entrusted the State Bank with "discounting the short-term notes of the State Treasury to the extent required by war-time needs." In the course of 1915 and 1916, the government more than once fixed a limit for the issues of notes, gradually extending this limit from four to twelve billion rubles (October 10, 1916). They were issued at a discount to yield five per cent.<sup>35</sup> Their issue was begun in the very first

<sup>35</sup> On p. 66, below, it is stated that the terms were from three to twelve months. (EDITORS.)

days of the war. Under a decree of July 23, 1914, the first issue of 400 million rubles was made.

The total issues in each of the war years have already been stated. They were placed as follows:

## SALES OF SHORT-TERM TREASURY NOTES

*(Million rubles)*

	State Bank	Open Market	Total
1914 .....	657.9	146.8	804.7
1915 .....	2,749.3	426.7	3,176.0
1916 .....	3,270.6	2,340.0	5,610.6
1917 (Jan. and Feb.)..	1,165.2	746.6	1,911.8
Total .....	7,843.0	3,660.1	11,503.1

Most of them went into the hands of the State Bank itself, though beginning with 1916 earnest efforts were made to distribute them to the public and even compulsion was sometimes used. At the very beginning of the war the government laid especial emphasis on short-term notes, believing that the money market, still affected by the panic which the extraordinary events had produced, would prove incapable of absorbing long-term loans. The first lots went almost entirely to the State Bank and that this was the intention of the government is indicated by the denomination of the earlier issues, which were 1,000,000, 500,000, and 100,000 rubles, and by the fact that the Bank was simultaneously granted an increase in its right of issue. The market, however, soon developed a demand for these notes because of the great change the war had produced in the conditions under which commercial banks must operate. Credit operations were considerably contracted, causing a decrease in note and loan material on the market, and commercial credit banks found themselves with surplus funds which they invested in Treasury notes. Thus even in the very first year of war, only 18.3 per cent of all the notes issued were distributed in the open market. Later the government changed its policy and aimed at distributing a maximum number of

these securities to the public. For that purpose a radical change in their denominations was made. Bonds of 50, 25, 10, and 5 thousand rubles were introduced, and at the beginning of 1916 a one-thousand-ruble note made its appearance. The terms were various, ranging from three to twelve months. It appears from the table that these efforts were successful, and the government came to occupy a dominant place in the short-term credit market, even approximating a monopoly of it.

Remembering the unfortunate experiences of Russia in the Turkish war of 1877-1878, which had been conducted on paper-money issues, the government decided to turn to long-term bonds in order to attract new money from the open market and to retire as much as possible of its short-term debt, which consisted to a large extent of State Bank notes issued for war purposes. The old government issued, in the course of the war, six large war loans, the main facts concerning which are as follows:

#### WAR BOND ISSUES

Date	Million Rubles	Nominal Interest (Percent- age)	Price per 100 at Issue	De Facto Rate* (Percent- age)	Maturity Term (Years)
I. October 3, 1914.....	500	5	94	5.318	49
II. February 6, 1915....	500	5	94	5.318	49
III. April 24, 1915.....	1,000	5½	99	5.555	81
IV. October 28, 1915....	1,000	5½	95	5.789	10
V. February 26, 1916...	2,000	5½	95	5.789	10
VI. October 10, 1916....	3,000	5½	95	5.789	10
Total .....	8,000				

\* The figures in this column are not the customary bond table "yield if held to maturity," but are obtained by dividing the annual interest by the price at issue. (EDITORS.)

The total receipts from these loans were 7,458 million as of March 1, 1917.

Writers on the government's use of long-term credit have claimed that a mistake was made in issuing the bonds some-



what too late. It is doubtful if this criticism is justified, but it certainly is true that in carrying out the plan the government was too timid. Momentum was lost through delay in starting war-loan propaganda, and even after it started it was carried out haltingly, for the Treasury hoped that the interest rate, sufficiently high for that time, would prove an inducement and that the bonds would naturally gravitate into the hands of permanent investors. The interest on these loans, even without the discount premium, varied from 5.3 to 5.8 per cent while the state savings banks, at the same time, paid only 3.8 per cent. The short-term treasury bonds, however, carried 5 per cent, and the difference between this and the 5.3 per cent or 5.8 per cent of the new bonds was not a sufficient inducement to investors. It is probable that under the conditions existing in 1916, when compulsory placing of bonds and excessive taxation were resorted to, a more energetic campaign might have brought substantial results in long-term credit and thereby improved the purchasing power of the ruble or at least checked the depreciation which had already begun.

The government continued to issue straight loans devoid of any speculative attraction, while all around it business was teeming with speculation which kept the exchanges and the banks in a continual fever. At such a time it was a serious mistake to refuse to give national loans the advantage of this speculative trend of the market, whether in the form of a lottery loan or otherwise. Moreover, the government refused to react to the frantic speculation in dividend-bearing stocks in the open market, although this speculation devoured a vast amount of capital. It closed the stock exchange for a long period, but this drove speculation into the banks, on which the government continued as usual to look with indulgence, although it had every possibility of controlling and influencing them.

The distribution of war loans to the public was greatly facilitated by the fact that the market was saturated with money seeking profitable investment. During the Russo-Japanese War the government had set up a monopoly of the Russian money market in order to distribute its national

loans. It began with practically the same sort of monopoly at the outset of the 1914–1917 war, and private bond issues were suddenly and greatly curtailed. But the government proved unable to maintain this control throughout the war, as was done, for example, in England. In its *Report* for 1915 the State Bank stated (p. ix) that “private bond issues, in Russia as in other belligerent countries, have almost entirely ceased, as a result of the monopolizing of the market by government loans”; but this was no longer quite true at the close of 1915; and in 1916 the situation had very greatly changed. The State Bank, in its *Report* for that year, was compelled to say (pp. vii–viii) the following:

During the year under report the government carried out, inside the country, credit operations to a total amount of about 7 billion rubles as against 3.6 billion in 1915. Although, judging by absolute figures, this result seems favorable, we must not lose sight, in appraising it, of the fact that during the same year the total increase of deposits in credit and savings establishments was 5,359.1 million as against 2,028.4 million in 1915, and that the total of paper money in circulation increased by 3,486 million. Thus we see that the Russian money market has had a vast reserve of free funds which have not shown a tendency to be invested in government loans. Also, the year 1916 was marked by energetic development of private activity; the bonds issued by stock companies totaled 923.5 million rubles or  $2\frac{1}{4}$  times as much as in 1915.

For the purpose of distributing these war loans, huge and quite unprecedented in Russia, two syndicates were organized: one consisting of government and co-operative credit establishments with the State Bank at their head, and the other of private banks under the leadership of large Petrograd banks. The bulk of the war loans was placed by these two syndicates in almost equal parts. The State Bank had at its disposal such investing machinery as the government savings banks and other government organizations, as well as its own customary clientele. The part played by the savings banks was especially conspicuous.

From July 1, 1914, to October 1, 1917, the government savings banks bought on their own account the following amounts of war loan bonds:

PURCHASES OF BONDS BY GOVERNMENT SAVINGS BANKS<sup>36</sup>

Loans	Million Rubles
1914 (5 per cent).....	49.5
1915 (5 per cent).....	160.9
Second loan (5½ per cent).....	196.0
1915 (5½ per cent).....	184.4
1916 (5½ per cent).....	316.7
Second loan, 1916 (5½ per cent).....	113.0
Liberty Loan .....	1,000.0
Short-term bonds .....	1,070.0
Treasury certificates .....	75.0
Total .....	3,165.5

Thus these banks took, out of the total of 8 billion rubles of the first six bonded war loans, 1,020 million, or 12.7 per cent. But in addition to purchases on their own account they also sold to the public, i.e., to the most stable class of holders, the following quantities, in millions of rubles:

BONDS SOLD TO PUBLIC BY SAVINGS BANKS<sup>36</sup>

Loans	Million Rubles
1915 (5½ per cent).....	189.6
1915, first issue (5½ per cent).....	316.9
1915, second issue (5½ per cent).....	350.0
Liberty Loan .....	556.0
Total .....	1,412.5

It will be seen that the dissemination of government securities among the masses of the population went on fairly successfully. For instance, the balance of deposits in interest-bearing bonds on October 1, 1917, in the savings banks was 1,989 million rubles, or 5.4 times greater than on July 1, 1914. In the years immediately before the war the balance of deposits of this nature usually stood in a ratio of 20 per cent to the cash deposits. On October 1, 1917, this ratio doubled, rising to 40 per cent. These deposits were made, however, chiefly by the urban population, the rural popu-

<sup>36</sup> *Vestnik Finansov* ("Financial Gazette"), 1917, No. 43.

lation accounting for a relatively small share, as is indicated by the following table:

	Security Deposits Jan. 1, 1916 (Million Rubles)	Cash Deposits Jan. 1, 1916 (Million Rubles)
City depositors . . . . .	439.4	1,207.7
Rural depositors . . . . .	113.4	950.5

The ratio of bond deposits to cash deposits was 36.4 per cent for city dwellers and only 11.9 per cent for village people.

Small banks contributed very modestly to the placing of war loans. Thus, for instance, of the loan of 1915 these banks bought for their own account only 8.4 million rubles' worth and sold to their clientele 4.4 million rubles' worth. Of the 5½ per cent loan of 1916, first issue, small banks bought 23.9 million and found customers for another 25.8 million.<sup>87</sup>

Concerning the part taken by private stock company banks in the placing of bonds, an opinion exists that these banks paid, for bonds which they took, out of the funds of the State Bank, the latter allowing them easy credit on war bonds to be distributed. Indeed, looking at the balance sheets of the State Bank, it is noticeable that on the dates fixed for payments on account of bonds placed by private banks the indebtedness of these banks to the State Bank rose sharply. For instance, at the beginning of May 1915, being the time set for payments on the second war loan, the indebtedness of private banks rose suddenly from 259 million rubles to 670 million. This happened on every payment date throughout the war years. Superficially therefore it looks as though the private banks paid for war loans which they helped place, out of the State Bank resources, which meant, in the end, by means of paper-money issues. But as a matter of fact it merely meant that the enormous payments due from private banks on war loan bonds accepted by them could not be made from their cash funds or from their supply of quickly realizable notes and loans, and as

<sup>87</sup> *Vestnik Finansov*, 1917, No. 2.

usual in such cases they turned for financial aid to the central bank of issue. The real question, then, is how soon the private banks were able to pay their obligations to the central bank. To answer this we must turn to the reports of the State Bank not on particular dates but for the whole years concerned. We find that in 1916 loans made by the State Bank to private banks against securities grew, in one year's accounts, from 2,829 million rubles in 1915 to 3,655 million; but the indebtedness of the banks on this account was reduced from 448 million to 300 million. If we take into consideration that in 1916 a total of over 4 billion rubles of war loans was distributed, it becomes obvious that the financial aid given by the State Bank to private banks for this purpose was mostly of a short-term sort, i.e., its value consisted chiefly in facilitating payments.

The total credit operations of the state from 1914 to 1916 are estimated at 18,625 million rubles, nominal. Of this amount 6,729 million, or 36 per cent, was placed by means of new issues of paper currency, through the discounting of short-term obligations with the State Bank, and 11,896 million, or 64 per cent, was realized out of business and savings resources.

Foreign powers participated in the financing of Russia for the war in three ways: by discounting abroad our short-term obligations, by discounting long-term obligations, and by opening so-called credits without special securities. These credit agreements between the Russian government on one side and allied governments and foreign banks of issue on the other were occasionally accompanied by exports of Russian gold in bond. A total of 640 million gold rubles was thus exported. Therefore the figure of our indebtedness which was stated in foreign estimates as 7,681 million rubles<sup>38</sup> should be reduced by one billion (640 million rubles gold in bond, 120 million rubles gold exported, under the treaty of Brest-Litovsk, which after the German debacle found its way into the hands of the Allies; and a balance made up of Russian valuables attached abroad).

<sup>38</sup> See Pasvol'sky and Moulton, *The Russian State Debt and the Re-establishment of Russia* (Moscow, 1915), p. 126.

It still remains to say a few words about the credit operations of the Provisional Government during its short stay in power. In this matter the Provisional Government always chose the most trodden paths and the most familiar ruts. It devoted its main effort to the realization of short-term notes at the State Bank; though it also succeeded in carrying through one long-term operation under the name of Liberty Loan.

The "Liberty Loan" was issued in accordance with the decree of March 27, 1917; and in compliance with an order of the Minister of Finance, its nominal amount was not determined beforehand. All who so desired were allowed to convert their 5 per cent short-term notes into the bonds of the Liberty Loan. This loan was to mature in 54 years and to bear 5 per cent nominal interest. The subscription price was 85 per 100 rubles. Besides the original small bonds of 25- to 50-ruble denominations established by the decree of March 27, there were later issued, by a supplementary decree dated April 25, 1917, bonds of still smaller denominations at 20 and 40 rubles. The yield of the Liberty Loan bonds was somewhat higher than that of the 5½ per cent war loans. Exclusive of the discount premium, the Liberty Loan earned 5.88 per cent<sup>39</sup> as against the 5.82 per cent of the 5½ per cent war loans. For the distribution of this loan, propaganda was organized far better than it had been under the monarchy. The whole operation, however, brought in only 3,645 million rubles (or, according to other sources of information, 3,098 million) which represented 17 per cent at most of the total yearly expenditure of 22 billions for war in 1917. The first two months of 1917 yielded a balance on sales of the 1916 bonds amounting to 631 million; the discount of short-term obligations within the country netted 10,550 million, and similar discounts abroad, 2,554 million. Thus the credit operations of 1917 yielded something like 16.8 billions. The deficit was in excess of 6 billion. To remedy this shortage, the Provisional Government turned to

<sup>39</sup> This figure is obtained by dividing annual interest rate by selling price. See also p. 66, above, where a similar curious computation is made. (EDITORS.)

the expedient of two state lotteries for a total amount of 2 billion rubles, but the bonds ordered abroad for these lotteries did not reach Russia before the downfall of the government which had ordered them. The Provisional Government also authorized its Minister of Finance to raise to 12 billion rubles the limit of foreign credit to be secured by discounting short-term obligations, but by that time its finances were in a state of complete breakdown which reflected the exhaustion of Russia through a war which was beyond her resources.

## CHAPTER TWO

### PUBLIC FINANCES DURING THE CIVIL WAR, 1917-1921<sup>1</sup>

*By K. Shmelev*

#### I. GENERAL CHARACTERISTIC OF THE CIVIL WAR PERIOD

The October Revolution (early in November, according to the new calendar) overthrew the Kerensky government and established Soviet rule. For more than three years thereafter a most intense civil war was carried on, as well as a struggle against armed attempts at intervention from abroad. At the same time, a violent revolutionary disruption of the old economic relations was taking place. In the

<sup>1</sup> The following chronology may assist the American reader.

The "February" Revolution occurred on March 12, 1917, according to the Gregorian calendar used in America and elsewhere; by the old Russian or Julian calendar it is dated thirteen days earlier, the last day of February. On March 15, 1917 (our calendar), the Tsar abdicated and a Provisional Government was formed. On September 16 Russia was proclaimed a republic.

The October or "Red" Revolution occurred by our calendar on November 7, 1917, when the Provisional Government was overthrown and a new government based on the soviets of workers', soldiers', and peasants' deputies and dominated by the Bolsheviks was set up. The new rulers made peace with the Central European Powers on March 3, 1918, but for two years a bitter civil war raged in Russia itself between the "Reds" and the "Whites," the latter refusing to accept the Bolshevik dictatorship. During the greater part of these two years the Soviet Government controlled only the central provinces of European Russia, but by the end of 1919 the principal "White" forces had been defeated and the Bolsheviks had gained control of the greater part of the Ukraine and Siberia including the regions of chief economic importance. In 1920 the Soviets fought a war with Poland and defeated the last serious White campaign led by General Wrangel. By the early months of 1921 the Western powers had definitely withdrawn their support from the Whites, Soviet Russia had signed peace treaties with her Baltic neighbors, and the beginnings of relations with the West had been made with the Anglo-Russian Trade Agreement.

On December 30, 1922, the various regions under Bolshevik rule issued a declaration and treaty of union forming the Union of Socialist Soviet



villages an agrarian revolution was expropriating large and medium estates of the landlords; in the cities workers were establishing control over works and factories and nationalization of trade and industry was taking place. The expropriation of private property—land and business undertakings—became so extensive that it touched even the upper, more well-to-do, stratum of small peasant farmers

Republics (U.S.S.R.) made up of the Russian Socialist Federal Soviet Republic (R.S.F.S.R.), the Ukrainian S.S.R., the White Russian S.S.R., and the Transcaucasian S.F.S.R., to which the Turkomanian S.S.R. and the Uzbekian S.S.R. were added in 1925 and the Tadzhik S.S.R. in 1929. A constitution of the U.S.S.R. was approved in July 1923.

There is politically a superficial resemblance only between the Soviet Union as a federal state and that of the United States of America. One difference lies in the fact that some of the member "republics" are themselves federal states. Thus the R.S.F.S.R. includes eleven autonomous republics and twelve autonomous regions. Another difference lies in the preponderant power of a single member of the Union—the R.S.F.S.R.—which governs about 92 per cent of the area and 68 per cent of the population of the Union and has over twice as many representatives in the Union Soviet as all the other republics combined. The political framework will appear in subsequent chapters.

Another important date is the promulgation of the New Economic Policy (NEP) in the spring of 1921. The full meaning of this is admirably presented in chapter three. But, at the risk of unsafe generalization, the following bare outline may be given (social and cultural features will be omitted, and only the economic methods summarized):

In the period from 1917 to 1921 the Bolsheviks undertook to put into operation, wherever their power extended, a full and complete socialistic program now called military communism. Land, capital, all property, and industry were "nationalized," that is, became public in ownership and control. All trade was "naturalized," that is, the movement of commodities was to be conducted largely through government agencies as nearly as might be without money or price. The ultimate goal at which socialism aimed may, perhaps, be described, always limited by "in so far as possible," as follows: all production was to be in the hands of the workers—in agriculture of the peasants, in industry of the mechanics and other laborers. Each unit was to be managed by a local—or a shop, or village—council, or "soviet of the workers," but all directed and controlled ultimately by the central council or soviet government, to insure a uniform nationally "planned economy." All products and goods, or at least all as to which the "plan" held it to be desirable, were to go into a common pool, from which they would be passed out to the consumers in quantities regarded as needful or proper. Capitalists and middlemen (bourgeoisie) were to be eliminated. According to one of our authors the Soviet Union still "keeps before itself the consistent aim to widen the socialized economic domain until it includes the entire national economy." (See chapter four, p. 296.)

But the extreme difficulty (1) of educating millions of people accustomed to think in terms of private property and money prices to think

and invaded practically all of the country's trade and industry, except the most insignificant undertakings. Along with this fundamental disruption of the social structure, a reorganization of the whole of the central and local administrative machinery was taking place. The first three years and more of Soviet rule (November 1917 to the be-

and act in terms of "nationalized" means of production and of "naturalized" trade, (2) of finding intelligent members of soviets, and (3) of actually supplying, adequately, food, clothing, shelter, and appliances in proportion to needs, led to a partial suspension of the extreme socialistic features. Hence the "New Economic Policy," NEP, was promulgated. "Nationalization" became a reserved theory, for which an indefinite *moratorium* was permitted in part. But, nevertheless, wherever possible, the government retained the control and administration of farms and industries. In particular transportation and communication, old Russian government monopolies, continued public property; so did forests and many mines; the government started great farms. It also started an ambitious program of electrification and organized many industries, etc. But private capital was given a limited field in which to operate, subject, however, to close inspection and rigid control and supervision. Trade was again permitted and "naturalization" in the sense of distributing food and wares to workers was partly suspended. Thus in place of rations workers received wages and bought their food, etc., at either the government stores or of the so-called Nepmen (traders under the NEP). Money came back into use, a state bank was created, a new currency, the *chervonets* rubles, was devised, and credit methods were allowed to grow up. Instead of requisitioning goods, grain, clothing, etc., taxes proper were collected in money. Bourgeois capitalists were tolerated, but were kept under the ever watchful eye of the "guardians of public welfare." Profiteering is especially anathema. Complete socialism is still the goal, and all control looks to that end.

Finally, after some seven years of the NEP, a new and more ambitious scheme known as "the five-year plan," announced in October 1928, and ratified in May 1929, was developed, looking toward a very high development of every sort of industrial plant regarded as desirable and possible.

Only the very beginnings of the five-year plan come into these chapters. As the reader will discover as he turns the following pages, the Russian Soviet government is "great on statistics." This is perhaps inevitable, for if the central government is to direct and control every peasant and every worker so as to create an ideal economic system it must know all about everything. Averages, "coefficients," "indexes," "growth ratios," etc., bristle in reports and discussions.

Several terms occur and recur in this chapter which are in a sense technical terms as employed by the Russian Socialists.

1. *Nationalization* means, in general, the transfer of ownership of property (of title to land, of capital, of industry) to the government, or the abolition of private property.

2. *Naturalization*, "natural economy," etc., means that buying and selling—and hence, money and price—are abolished as far as the progress

ginning of 1921) were essentially a period of civil war, agrarian revolution, and nationalization of trade and industry.

However, as this disintegration of the old economic structure did not take place all at once, the governmental measures during the first year—up to the end of 1918—included some attempts at continuing the economic relations between the state and the people on the old basis of “money and market,” though under a system of fixed prices. It was not until later, when industry and trade had been nationalized and the policy of compulsory delivery of all agriculture

of naturalization is extended by law. For example, when the peasants’ products are taken from him and put into a common pool, and clothing, shoes, tools, and all other products of industry are likewise pooled, all to be distributed again to the consumers by law—usually in proportion to needs, as needs are construed by the government—then a “natural” economy prevails.

3. *Expropriation* implies the taking of property for a public purpose. Complete expropriation is the equivalent of nationalization.

4. *Exploitation* meant originally the whole theory of Marx as to “surplus value.” Briefly stated, Marx taught that the capitalist—bourgeoisie—was able to squeeze the proletarians because the latter, being without land or capital, had to work for the capitalist or starve, that the worker got a bare living wage and the capitalist waxed fat on interest and profits. The taking of interest, profits, and rent thus came to be called exploitation and is regarded by the Socialists as the wickedest feature of the capitalistic system. Exploitation is, however, a horse of another color when carried on by the state in the interest of everybody (other than a capitalist), and so exploitation becomes a reproachless term when it expresses the profit-making of nationalized industry.

5. *Distributive quota* means the amount of foodstuffs which a peasant family or a village, canton, or province was required to furnish to the government, or conversely, but less commonly, the amount of manufactured commodities returned to the peasants from the industrial centers. “Distributive” is used in two ways: (1) to indicate that a predetermined total is apportioned downward, and the quota to be returned by each district, then by each village, and finally by each family is determined by division; (2) to mean distribution of the commodities from the common pool to the consumers. When the context does not indicate the second meaning, and usually when it stands alone, the term “distributive quota” means the peasants’ contribution to the support of the industrial workers (proletarians), of the army, or of the country. This is its most frequent or common meaning.

We have translated, without giving the Russian, the titles of books and other source materials. This slight breach of scholarly etiquette may be justified by the fact that many of our readers unfamiliar with the Russian language may be interested in the character of the source material. (EDITORS.)

produce to the government had been adopted, that the government decided to limit all private trade to a narrowly local market-place exchange. As a result of this policy economic relations gradually lost their money and market character and resolved themselves into compulsory payments-in-kind to the state, and a reversion to barter in local trade and private exchanges.

By the end of 1919, or early in 1920, the whole economic life of the country had become so thoroughly permeated by these principles of compulsion and payment in kind that the next step in socialistic reconstruction appeared to be to make them universal. This economic system came to be called later (to be precise, one year later), when it was repudiated, "the system of military communism."

During approximately this same period (1918-1921) civil war had continued almost uninterruptedly in nearly every direction from the center of the country. During these years various districts of the greatest economic importance were cut off from Soviet control for varying lengths of time. The Ukraine was separated till the beginning of 1920. The Don District, and the Donetz Basin were lost as early as the spring of 1918 (April to May) and remained so up to the beginning of 1920 except for the various short periods when they were invaded by Soviet troops. Siberia was cut off from the spring of 1918 till the beginning of 1920; the Ural districts, from April to November, 1918, and subsequently again from March to September, 1919; the Caucasus from the beginning of 1918 to the beginning of 1920; Turkestan completely until January-February, 1920. Even the Trans-Volga region was out of Soviet control for the great part of 1918 and up to February 1919. The situation of the country as to fuel, raw materials, metals, and food supply was especially difficult throughout 1918 and again from the spring to the fall of 1919.

Thus the country was seriously burdened by the protracted loss of regions most important economically at the very time when the maintenance of the Red Army and the conduct of the military operations were calling for huge outlays.

## II. GENERAL ECONOMIC SITUATION DURING THE CIVIL WAR

*Naturalization of economic relations.*—The most important economic phenomena, which exercised the greatest influence upon the development of public finance during the civil war, were a far-reaching decline in economic activities, and a degree of “naturalization” unprecedented in the world’s history.

The extent of economic decline, in general outlines, may be judged from the following table,<sup>2</sup> the data being approximate and the year 1917 taken as 100 per cent:

## INDEX NUMBERS OF ECONOMIC CONDITIONS, 1917 TO 1922

(Percentage of 1917)

	1917	1918	1919	1920	1921	1922
Number of workmen in industries..	100	78	51	47	46	42
Gross production of industries.....	100	48	25	21	30	40
Area cultivated .....	100	96	92	85	81	69
Grain stored .....	100	14	21	42	72	45
Export trade turnover.....	100	20	..	1	10	14
Efficiency of transportation, as reported .....	100	33	28	33	36	36
Per capita consumption of city population in calories.....	100	125	123	115	141	153

The decline was great even as compared with 1917—a year in which the nation’s economic life and foreign trade were already considerably undermined, especially as regards the rural population. Foreign trade was negligible, and by the time civil war ended it was practically nonexistent.

There is a very close connection between public finance and money circulation; and it was during the years from

<sup>2</sup> These figures are given for such territory as was under control of the Soviet government in each year mentioned, except the figures for the area under cultivation, the number of workers, and the efficiency of industry and transportation, which are calculated as within the proper, permanent boundaries of the U.S.S.R., i.e., including all territories which during the civil war were under various “white” and “green” governments. The figures are taken from the publication of the U.S.S.R. Central Statistical Office, entitled, “Totals of Ten Years’ Soviet Rule, 1917–1927, p. 4.

1918 to 1921 that the whole monetary system of the country was most badly disorganized. Currency was considerably depreciated in 1917, but from 1918 to 1921 the rate of depreciation accelerated in almost unbelievable degree.

### YEARLY INDEX NUMBERS<sup>3</sup> RELATIVE TO PRICES

	1916	1917	1918	1919	1920	1921	1922
Increase in the total currency emis- sion . . . . .	×1.6	×3.0	×2.2	× 3.7	×5.2	×15.0	×122.3
Rise of prices as per index of Labor Statistics . . . . .	×2.0	×7.1	×7.9	×14.8	×7.0	×17.1	× 73.8
Ratio of rise in prices to the in- crease in cur- rency emission, the latter being taken as 100 . . . .	125	237	359	400	135	114	60

During the civil war the “naturalization” of economic relations paralleled the disorganization of the money circulation and the depreciation of the currency. On the one hand, as we have pointed out, the rate of depreciation was more and more rapid and the fixing of prices<sup>4</sup> more general, so that presently it embraced most of the government’s and the people’s economic operations. On the other hand, these fixed prices fell farther and farther behind the free-market prices, until in 1920, and even in the second half of 1919, fixed prices became practically tantamount to gratuitous distribution.

The following table shows how great was this divergence between decreed fixed prices and those in the free market even as early as 1918, and how it increased in 1919 and still more in 1920. The comparison is between the average in-

<sup>3</sup> The sign × means times the amount of the preceding year. An index number of prices in a more conventional or common form is given in chapter one above, p. 36. (EDITORS.)

<sup>4</sup> The “fixed” prices were little more than the use of monetary terms solely as a common denominator. They became wholly arbitrary. (EDITORS.)

dices of fixed prices for all Russia, and free market prices (those of 1913 being taken as unity). The index of fixed prices was especially calculated in 1923 by the Institute of Economic Investigations of the People's Commissariat of Finance of the U.S.S.R.<sup>5</sup> For free-market prices, the index of the Bureau of Statistics of Labor has been taken.

#### INDEX NUMBERS OF FIXED AND FREE PRICES, 1917 TO 1921

	1917	1918	1919	1920	1921 First Half
All-Russian index of fixed prices, the prices of 1913 being taken as 100	673	2,600	7,500	10,600	Gratuitous
All-Russian free market price index of the Statistics of Labor, 1913 prices as 100	673	7,850	77,700	822,000	3,975,100
Percentage of fixed prices to free-market prices	1.00	0.33	0.10	0.013	.....

Already by 1919 the divergence between fixed and free-market prices was so great that in practice all transfers at fixed prices were considered as gratuitous, so that when the formal decree providing for the gratuitous distribution of commodities and services by the government and co-operative establishments to each other and to the people was issued, it passed altogether unnoticed. This formal step was taken by the Soviet of People's Commissars by decrees of March 25, October 11, December 4, 1920, and other dates.<sup>6</sup> The decree of December 4 provided for the distribution of food supplies to the population wholly gratuitously, beginning January 1, 1921.

Ever since the nationalization of trade and industry and the decreeing of compulsory collection in kind from peas-

<sup>5</sup> Prices on which this index of fixed prices was based were taken from the *Reference Book on Prices* published by the Committee on Prices of the Supreme Economic Council, Nos. 1 and 2.

<sup>6</sup> Decree of the Soviet of People's Commissars of December 4, 1920, concerning free distribution of food supplies to the people, published in the *Collection of Government Acts*, 1920, No. 93, Art. 505, and in No. 275 of *Izvestia*, issued by the All-Russian Central Executive Committee, for December 7, 1920.

ants as the chief method of supplying state reserves,<sup>7</sup> that is, about the middle of 1919, the whole country was operating very largely on a basis of "natural economy."

We may assume that already in the autumn of 1919 (when the food supply was especially poor because at that time the chief agricultural regions were cut off from Soviet territory), no less than one-half the commodity movement of the country was accomplished under the régime of fixed prices and consequently was going the way of "naturalization." It is true that the fixed-price market played a much smaller part in supplying the people with the necessities than did the free market. For example, from August to November, 1919, according to an investigation made of 166 cities and 37 gubernias (provinces) of Soviet Russia, only from 20 to 25 per cent of the de facto food supply, estimated in food calories, was obtained by the people at fixed prices, the balance of from 75 to 80 per cent being obtained in the free market.<sup>8</sup> Yet we must not forget that it was at fixed prices that the huge movement of supplies between the state and the co-operative establishments and between them and the Red Army took place. Furthermore, in 1920 the share of food supplied to the citizens by the state increased considerably. Thus the actual volume of the people's economic operations which were gravitating toward the "naturalization" process was quite an important one.

All the economic operations of the state and co-operative establishments and undertakings as between themselves and the greater portion of their dealings with the people were either at fixed prices or were gratuitous; and even the fixed-price operations were usually carried out without cash payments. Until all money payments between government branches were formally abolished, the accepted practice was, when one state institution transferred any commodities or rendered services to another, to make the necessary

<sup>7</sup> See below, sections dealing with state property and undertakings and with food administration, or distributive quota.

<sup>8</sup> See article by Professor S. A. Pervushin, "Money Circulation and Credit in Russia and Abroad," Vol. I (1914-1921) of *Reports of the Institute of Economic Investigations*, Moscow, 1922, pp. 57-60.



bookkeeping entries in the official accounts. In fact as early as 1919, and consequently even before the formal decreeing of gratuitous distribution, a number of the state institutions refused to make such transfer entries in money and thus ended all record of mutual credits or debits. This action was brought about by a realization of the fact that the fixed prices, expressed in depreciated money, had become too low to have any commercial or economic meaning.

### III. COMPULSORY COLLECTIONS IN KIND FROM RURAL PRODUCERS (PEASANTS) IN 1918

*The "Distributive Quota."*—The most important method by which the state supplied its economic needs during the civil war was through the system of compulsory collections of agricultural produce. Formally this expropriation claimed for the state all produce in excess of what was required for the producer's own consumption. The government established the norms according to which the quantities to be left for the producer's own needs were to be estimated. As a matter of fact, however, during the civil war of 1918–1921, so far as the principal agricultural products, such as grains, were concerned, these norms were considerably lower than the average rates of actual bread consumption by the rural population in either pre-war times or at present. Minimum rates below which expropriation was not to go were fixed for the most important produce: bread-grains, feed-grains, and oil-bearing seeds which formed the so-called category of "rated, or normalized," produce. In practice, however, the state's monopoly reached to all other food products.

This expansion of the state monopoly to all food supplies took place toward the close of 1918. The decree of the Soviet of People's Commissars, of November 24, 1918, concerning the organization of the national supply of food, personal necessities, and household goods<sup>9</sup> abolished private trade and private trading organizations in the whole of the

<sup>9</sup> Published in No. 83 of the *Collection of Government Acts*, 1918, Art. 879, and in No. 257 of *Izvestia*, November 24, 1918.

extensive market of agricultural and industrial supplies. In abolishing the private trading apparatus the government thus, as a matter of fact, established its own exclusive right to the storage of practically all agricultural produce. For those products which were not directly monopolized by means of norms or rates above which all surplus was declared state property, the abolishing of private trade did not formally exclude the possibility of free sale from producer to consumer; yet even in this field circumstances were such that private trade was limited to the narrowest local markets and to transportation by teams. So-called food-requisition cordons operated on all railways and waterways, and transportation for private account was limited by decree,<sup>10</sup> to very insignificant quantities. "Food products may be transported in quantities limited to the amount necessary for one passenger, that is, not more than a total of 20 pounds of any food products per consumer. This may not include flour or grain in any quantity whatsoever; but may include butter, or oil, up to two pounds and meat products up to five pounds. All excess above this norm is to be requisitioned."<sup>11</sup>

The requisition cordons put these rules very vigorously into practice. Not infrequently they even trespassed upon the scant allowance granted to the consumer-passenger.<sup>12</sup>

In view of the difficult food situation the government was forced to abate somewhat the rigorous rules for the transportation of food products by consumers. The decree of the Soviet of People's Commissars of December 10, 1918, allowed professional and workers' organizations to store and

<sup>10</sup> Published in No. 57 of the *Collection of Government Acts*, 1918, Art. 634, and in No. 166 of *Izvestia*, August 6, 1918.

<sup>11</sup> *The Collection of Government Acts*, 1918, No. 57, Art. 634.

<sup>12</sup> See, for instance, the ruling of the All-Russian Central Executive Committee concerning food-requisition cordons on railways published in No. 2 of *Izvestia*, January 3, 1919. It remarks that "from various railway districts information has been coming about unlawful actions of the requisition cordons, which, heedless of the general transportation crisis and the shortage of fuel, stop trains at every half-station, treat roughly the passengers whom they search, especially women, take away their things and produce for their own personal use, etc."

transport the following supplies for the purpose of distributing them among their members: potatoes, dairy products, vegetables, fowls, game, fruit, honey, and other produce which did not come under the norm described above for grain, flour, etc. Potatoes, however, were to be purchased only at fixed prices.<sup>13</sup>

Thus from 1918 on, the government monopoly was expanded to cover not only the excess of those products that came within the norm but all trade in and all storage of agricultural produce in general.

On all produce stored by the government, low fixed prices were established; and, as a general rule, these were obligatory not only for government produce but for that in the possession of professional and workers' organizations (co-operatives), as mentioned above.

This order of things was soon confirmed by a special decree of the Soviet of People's Commissars of January 24, 1919,<sup>14</sup> formulating briefly the basis of the state monopoly of agricultural produce. In view of its importance we shall quote the main points of this law:

In accordance with a resolution passed on January 17 of this year by the session of the All-Russian Central Executive Committee of the Soviet of People's Commissars, while confirming the fixed food administration policy of the Soviet rule and the necessity of unfailing introduction into practical life of the state monopoly of the basic food products (bread of all kinds, groats and grain, feed, sugar and all preparations from it, tea, salt) as well as the necessity of mass storing at fixed prices of the other important foods (meat and sea fish, hemp, sunflower and flax seeds, oils, potatoes, and animal fats), and prohibiting to any organization whatsoever besides the state food administration organs and their agents the storage and transport of all the above-named supplies, be it resolved:

1. To oblige all organs of the Soviet government strictly and unfaithfully to see to it that no obstacles or difficulties be put in the

<sup>13</sup> Decree concerning the storage of unmonopolized produce by worker's organizations, of December 10, 1918, published in Nos. 91-92 of the *Collection of Government Acts*, 1918, Art. 927, and in No. 272 of *Izvestia*, December 12, 1918.

<sup>14</sup> Published in No. 1 of the *Collection of Government Acts*, 1919, Art. 13, and in No. 16 of *Izvestia*, January 24, 1919.

way of free team transportation to markets and the free sale of all the produce not included among the above-named; and among those above-named, potatoes. Those guilty of causing such difficulties shall be delivered to the Revolutionary Tribunal.

2. The right of mass storage and transportation of the produce enumerated in paragraph 1 (but the storing of potatoes is to be made at fixed prices) is to be granted, not alone to the government organs of food administration but also to workers' organizations and professional co-operative unions, as a temporary measure.—Decree developing and supplementing the decree of December 10, 1918.

The fixed prices at which the state storing of food was carried out were very much lower than free prices, even in 1918; later this divergence (especially on the basic agricultural products) grew to colossal proportions, so that the produce stored was practically free.

On the other hand, under the difficult conditions of civil war, intervention, and disorganization, the minimum norms below which these basic agricultural products were not to be requisitioned were, as we mentioned above, considerably lower than the actual rate of consumption of grain by the same rural population in pre-war times and at present. Thus, it was recommended to adhere to the following rules in calculating the excesses of grain to be requisitioned out of the crops of 1919:

1. Seed grain is to be left to producers according to the number of desiatins to be sowed, the quantity of seed grain per desiatin to be estimated on an average in each gubernia, uezd, and region according to statistical data.

2. For actual consumption the following is to be left: 12 puds (480 Russian or 432 English pounds) of grain and 1 pud of groats per person; instead of groats, where there are none,  $1\frac{1}{2}$  puds of grain or meal (flour) may be left, or 7 puds of potatoes; 25 per cent of the grain or the meal may be replaced by potatoes when such are to be found on the farm, on a basis of 6 puds of potatoes for 1 pud of grain or flour.<sup>15</sup>

<sup>15</sup> Ruling of the People's Commissariat of Food, No. 88, of July 29, 1919, concerning the quantities of seed and food grain to be left for the consumption of the producer in estimating the crops of 1919. Published by the People's Commissariat of Food in the *Systematic Collection of Decrees and Rulings of the Government Concerning the Food Supply*, Vol. II (January 1 to September 1, 1919), Nizhni-Novgorod, 1920, p. 351.

The actual rates of grain consumption<sup>16</sup> by the rural population per year per person, as compared to pre-war times in 14 gubernias, were as follows:

## CONSUMPTION OF GRAIN PER PERSON

	Consuming Districts*			Producing Districts*		
	Puds	Kilo-grams	Percent-age of a	Puds	Kilo-grams	Percent-age of a
a) According to budget data of pre-war years	14.71	241	100	16.99	278	100
b) According to investigations as to nutrition for agricultural year:						
1919-1920, Jan.-Feb.	11.37	186	77	16.25	266	96
1920-1921, Nov.-Dec.	12.14	199	83	11.97	196	70
1920-1921, Feb.-Mar.	11.89	195	81	11.34	186	67
1926-1927, Oct.-Nov.	14.47	237	98	16.39	268	97

\* "Consuming districts" use more than they produce; "producing districts" produce more than they use. (EDITORS.)

In view of the low fixed prices and the low minimum quantities allowed for consumption on peasant farms, the state collections of agricultural produce must be regarded as virtually a compulsory tax in kind.

To be sure, while requisitioning the people's produce at low fixed prices, the government also took measures to supply them with manufactured goods at equally low fixed prices. This, however, did not appreciably lighten the compulsory nature of the state collections, first, because of the comparatively negligible extent to which the state was able to supply manufactured goods to the villages during the civil war industrial shortage; and, second, because grants of manufactured goods to individual villagers were not made to correspond with the amounts of produce requisitioned from each particular individual.

According to the calculations of A. L. Wainstein, the expropriations of produce in the Orlovskaja gubernia in 1918-1919 amounted to an average of 34.8 rubles (in pre-war prices) per farm, or 14.8 per cent of the conventionally

<sup>16</sup> *Totals of a Decade of Soviet Rule in Figures, 1917-1927*, published by the Central Statistical Office of the U.S.S.R., p. 357.

accepted net production of a farm, that is, its total production minus seed grain and livestock feed. Meanwhile, though obtaining manufactured goods at low fixed prices, the rural population of the same district received only about 17.6 pre-war rubles' worth, or 6.8 per cent of its conventional net production.<sup>17</sup> There exist no published data which would enable us to estimate the return to the rural population from the distribution of manufactured goods in other districts. But it is obvious from the example above that this distribution did not compensate for the compulsory expropriation of produce. This was especially true with regard to 1919-1920, when compulsory expropriations of produce for the state increased considerably, as compared with 1918-1919, while, on the other hand, the distribution of manufactured goods failed to increase at fixed prices and in fact dwindled to practically nil.

The Soviet government made the distribution of manufactured goods to the rural population conditional on the delivery by each village community of the full quota of produce due from that village.<sup>18</sup> It was only on condition of such complete deliveries that the rural communities of the republic were given any manufactured or industrial articles. In case of a stoppage in the delivery of agricultural produce or of failure to deliver them on time, the particular village lost its right to obtain manufactured goods. Thus was established the "system of compulsory turnover" between state and village. This compulsory turnover was carried out by means of having the peasants deliver their produce to the same government organs as were to supply them with manufactured goods.

<sup>17</sup> Albert Wainstein. *The Taxation of and Payments from Peasants in Pre-War and in Revolutionary Years*, an attempt at a statistical investigation (Moscow, 1924), pp. 55 ff.

<sup>18</sup> Decrees of the Soviet of People's Commissars of the end of March, 1918 (*Collection of Government Acts*, 1918, No. 30, Art. 398, and *Izvestia*, No. 63, April 2, 1918) and that of August 5, 1918 (*Collection of Government Acts*, 1918, No. 58, Art. 638, and *Izvestia*, No. 168, August 8, 1918) concerning turnover of goods; also decree of the Soviet of People's Commissars of August 5, 1919, concerning compulsory turnover (*Collection of Government Acts*, 1919, No. 41, Art. 387, and *Izvestia*, No. 175, August 9, 1919).

An individual peasant could not obtain any industrial or manufactured goods unless all the peasants in his community, not himself alone, had fulfilled their obligations to surrender produce to the state. Thus was established the "principle of collective responsibility."

This distribution of manufactured articles and industrial goods among individual peasants stood in no direct ratio to the expropriation of these peasants' produce, for it was done primarily on a per capita basis.

Thus again state collections of agricultural produce, although they stood in a certain connection with the grants of industrial and manufactured goods to the village, were nevertheless virtually a compulsory tax in kind on the population.

The forms which the compulsory state collections assumed during the civil war period of 1918–1921 underwent a certain evolution. Three forms were, on the whole, possible: (1) Estimating the expropriable excess of produce in the possession of every individual producer. (2) Taxing individual producers according to the physical indices of the condition of their farming, such as area under cultivation, number of livestock, etc. (3) A distributive quota, i.e., estimating the whole quantity of each particular product which the government required for the needs of the whole country and then dividing it proportionately between districts, then between villages, and finally between individual farmers.

As is well known the compulsory collection of agricultural produce led, during the civil war, to a discontinuance of the state and local land taxes which had existed before the Revolution. All of that taxation was distributive [sometimes called "an apportioned tax"—EDITORS], i.e., it was of the third form described above. If the compulsory collection of produce had been a natural development of the old land taxation, such a distributive form would have been natural for these collections from the beginning. As a matter of fact, however, the compulsory collections in kind were not a development of the land tax. They came into being as a result of the project of state storage of agricultural

produce, which was intended to bring very real compensation to farmers; and it was only because of the retrogression in the country's economic life, the declining productivity of industry and agriculture, the depreciation of money, and the unyielding régime of fixed prices that this state storage became a compulsory tax in kind. Still, even at the end of 1918, when these collections were already wholly compulsory and largely without compensation, they were thought of as a thing quite apart from taxes as such. Parallel to these collections, or expropriations, as late as the end of 1918 and the beginning of 1919 the government attempted to levy from the rural population a separate tax in kind in the form of a certain portion of their produce.<sup>19</sup> This tax was introduced in lieu of the former money tax on land. It was on an assessment basis, according to the area under cultivation and the number of livestock, thus representing the second of the forms described above. The attempt to introduce it in 1919 was unsuccessful. The extensive collections in kind, which by that time had come to be an apportioned levy, left no room for separate taxes in kind. The latter had to be abolished during the very first collecting campaign.

Compulsory collections in kind became widespread and apportioned. But during the first year and a half of Soviet rule (1918 and the beginning of 1919) they were carried out in the first of the three forms described above. The government sought to make a direct estimate of the grain surplus on individual peasant farms and to expropriate that surplus.<sup>20</sup> To this end, all manner of compulsion was used: harsh punishment of peasants for attempting to conceal their surplus, up to confiscation of the entire property and deprivation of freedom; co-operation on the part of the most destitute, landless peasants of the village, through uniting them into "Paupers' Committees" which were ex-

<sup>19</sup> Decree of the All-Russian Central Executive Committee of November 30, 1918, on taxation in kind of agricultural producers, published in No. 82 of the *Collection of Government Acts*, 1918, Art. 864, and in No. 248 of *Izvestia*, November 14, 1918.

<sup>20</sup> According to Marx, "expropriation" of "surplus" is a proletarian right as opposed to capitalistic exploitation, a vice. (EDITORS.)



pected to help discover the concealed produce of the more well-to-do and, as a reward, were given part of the supplies thus discovered and expropriated; a centralization of the whole collection machinery; prohibition of any trade whatsoever in produce; harsh-dealing requisition cordons on railways and waterways. Nothing helped. State collections continued to decline. In the beginning of 1919 the government resolved to shift to a distributive scheme, as the only one which promised success, and a decree of the Soviet of People's Commissars of January 11, 1919, concerning distributive collection of grain and fodder for the state from the inhabitants of producing districts contains the following:

ARTICLE 1. The entire amount of grain and fodder requisite for the needs of the state is apportioned for requisition among the inhabitants of producing districts. [Introducing compulsory production.—EDITORS.]

ART. 6. The entire amount of grain and grain fodder to be collected from a particular district according to the government scheme of apportionment must be raised and expropriated from the inhabitants at fixed prices and delivered on June 15.

ART. 9. Producers delivering no less than 70 per cent of their quota on or before March 1 and delivering the rest on or before July 15 will be exempt from the tax in kind.

ART. 10. Producers who fail to deliver their quota at that time are liable to suffer requisition without compensation of whatever supplies are discovered in their possession. Those who are persistent and who wilfully conceal their supplies will be subject to harsh measures up to confiscation of property and deprivation of liberty on sentence by the People's Tribunal.<sup>21</sup>

This decree of the Soviet of People's Commissars was supplemented by one of the People's Commissar of Food on January 13, 1919,<sup>22</sup> which gave further details on the distribution of the gubernia quota between uyezds, of the uezd quota between the volosts, and of the volost quota between villages and individual peasants.<sup>23</sup>

<sup>21</sup> Published in No. 1 of the *Collection of Government Acts*, 1919, Art. 10, and in No. 24 of *Izvestia* of February 2, 1919.

<sup>22</sup> Published in No. 1 of the *Collection of Government Acts*, 1919, Art. 11, and in No. 13 of *Izvestia*, January 19, 1919.

<sup>23</sup> Gubernia or provinces, uyezds or districts, volosts or cantons, and communes (villages) were the division from the top down of each republic or state. See note 16, chapter one, p. 29, above. (EDITORS.)

Thus the government storage campaign of 1918–1919 ended in a distributive-quota collection, in abbreviated Russian named the *prodrazverstka* (or *prodovolstvennaia razverstka*).

Later, in 1919 and 1920, this quota was developed so as to include every kind of agricultural produce.<sup>24</sup> The various prohibitions and methods of compulsion and the principle of collective responsibility described above still remained in force.

The resolutions adopted by the Second All-Russian Conference on Food in July 1920 contain detailed instructions as to the organizing of the distributive-quota collections. We quote the most important among them:

1. The quota to be collected in basic food products must be calculated on the basis of a complete expropriation of all surplus from the farms.

2. In cases where any surplus over and above the assigned and collected quota of basic produce is discovered, no free sale of it is to be allowed under any pretense; at the same time, however, it should be not requisitioned for export from that particular community but taken away and re-distributed among the local destitute.

3. The responsibility for the correct carrying out of the quota collections in the volosts and villages and for prompt and full delivery rests on the volost executive committees (soviets) and the village soviets, who shall act under the observation, guidance, and responsibility of the government food administration organs.

4. The assignment of individual quotas of monopolized (state-manufactured) produce by the administrative organs of the volost and the villages is made not on a per capita nor a per desiatin basis but on the basis of the economic strength of each farm.

State collections of agricultural produce during 1918–1921 showed a considerable increase. Thus, according to the data of the Commissariat of Food, the general quantities of bread-grain and feed-grain stored were as shown in the table on page 93.

<sup>24</sup> See resolutions of the Second All-Russian Conference on Food, July 1920, published by the Commissariat of Food in *Systematic Collection of Decrees and Rulings of the Commissariat of Food Administration*, Vol. V, July 1, 1920—December 31, 1920 (Moscow, 1921), p. 4.

COLLECTIONS OF BREAD GRAINS AND FOOD GRAINS  
BY YEARS<sup>25</sup>

Year	Total in Mil- lion Puds	Average per Farm in Puds
1917-1918 .....	47.5	5.6
1918-1919 .....	107.9	12.4
1919-1920 .....	212.5	16.2
1920-1921 .....	367.0	20.4

In 1919-1920 and 1920-1921 the distributive quota of grain and feed was amplified by quotas for many other agricultural products, which almost doubled the general total of expropriations under this system.

The total value of compulsory collections in kind by way of distributive quotas in 1920-1921 (from August 1, 1920 to August 1, 1921) can be estimated, in pre-war prices, at 632.6 million rubles (including collections of bread-grains and feed-grains to the amount of 330 million on the basis of 90 kopecks per pud). To visualize better the size of these state collections we may point out that taxes in kind levied on agriculture later on, after the introduction of the new economic policy and consequently in the presence of a free-market exchange, gave in the 1921-1922 budget year a sum total of all agricultural produce valued at 386.0 million rubles; one in 1922-1923 valued at 421.7 million, and one in 1923-1924 valued at 446 million. (All calculated at pre-war prices.)<sup>26</sup>

The figures just cited show the extent of agricultural produce stores collected by the food administration organs of the government under the distributive quota system. Over and above this, however, the rural inhabitants bore various

<sup>25</sup> Four Years of Food Administration Work, *Articles and Reports of the Commissariat of Food* (Moscow, 1922), p. 132. Figures for 1920-1921 are taken from later data and include collections in the Ukraine, the Transcaucasus, Central Asia, and Crimea. See *Totals of a Decade of Soviet Rule in Figures, 1917-1927*, published by the Central Statistical Office of the U.S.S.R. (Moscow, 1918), p. 379.

<sup>26</sup> See *The People's Economy of the U.S.S.R. in Figures*, a short reference work published by the Central Statistical Office, Moscow, 1924, pp. 216-217.

confiscations, fines, and supplementary requisitions. Besides, they also supplied considerable obligatory labor and bore, to a certain extent, the burden of paper-money issues. On the other hand, they gained something through being supplied with manufactured goods at low prices and through certain, though negligible, payments made to them for labor rendered the government and from the distributive quotas of other produce. It appears impossible to obtain a balance sheet of all these expenditures and receipts for the civil war years. There exist only very rough estimates of the expropriations made from the rural population under the distributive-quota plan, of the confiscation of horses, and of money taxes; and still more uncertain are the calculations of the costs to the peasants of the compulsory labor and team duty. And these estimates cover only a small number of peasant farms in fourteen gubernias. On the income side, we have no figures for the income of agricultural workers all over Russia during the civil war years, and we are forced to resort to the gross-production data, from which we then subtract the quantities needed for seed and live-stock feed in order to obtain the so-called "net income" of peasant farming. Estimates of this sort for the year, August 1, 1920, to August 1, 1921, give the averages<sup>27</sup> per peasant farm in pre-war rubles as shown in the table opposite.

Even if we attempt no correction of these underestimated figures on labor and team duties, we see that the average taxation (exclusive of the burden of paper-money issues) in the consuming districts was, in 1920-1921, 7.2 rubles per capita and amounted to 15.4 per cent of the conventionally assumed net income, whereas in the producing districts this average was 13.4 rubles per capita or 31.2 per cent of the net income, and the average for all Soviet Russia, 10.3 rubles per capita, or 23.2 per cent of the net income. Such were the amounts of expropriation from the rural

<sup>27</sup> See Albert Wainstein, *Taxation of and Payments from Peasants in Pre-War and Revolutionary Times* (Moscow, 1924), pp. 54 ff. The figures in our text have been taken from Table 4 in the supplement to the above-named work.

## BURDENS LAID UPON THE PEASANTS

	Average per Farm in Consuming Districts* (Pre-War Rubles)	Average per Farm in Producing Districts* (Pre-War Rubles)
<b>I. Receipts:</b>		
1. Total gross receipts.....	505.8	415.8
2. Gross receipts from agriculture	456.9	390.9
3. Conventional net receipts, total	301.6	320.8
<b>II. Expropriations:</b>		
1. Distributive quota .....	23.0	71.2
2. Confiscation of horses.....	3.4	9.8
3. Money tax .....	0.14	1.3
Total expropriations 1, 2, 3..	26.5	82.3
Total expropriations as ratio to the conventional net receipts.....	8.8%	25.6%
<b>III. Labor and team duty:</b>		
Net losses from above duties.....	60.1	53.1
Damage to property from above- mentioned duties .....	20.1	17.7
<b>IV. Total expropriations and losses:</b>		
Per one farm .....	46.6	100.0
Per capita .....	7.2	13.4
Of the conventional net income..	15.4%	31.2%

\* "Consuming" districts, as previously stated, use more food than they raise, and the converse is true of "producing" districts. (Errors.)

population toward the end of the civil war. As already stated they do not include the expropriating effects of paper-currency issues which depreciated the ruble. The income of the state from these issues for 1920-1921 was about 1.2 rubles per capita of population (as per index); and it may possibly be assumed that the rural population, which is less affected by money circulation than the other social strata, lost, as a result of these issues in 1920-1921, about 0.7 rubles per capita.

However, even without including this highly problematical paper-currency loss, the burden of rural expropriations in 1920-1921 was much higher absolutely than all the payments exacted from the peasantry in pre-war times, including state and land taxes (rent and bank payments). On the

basis of percentage of taxation to income, the burden on the peasant in 1920–1921 appears to have been over 25 per cent or from one and one-half to two times as heavy as in pre-war days.

The distributive quota, moreover, had a depressing effect on agriculture, not only because of the heavy expropriations but also because of the very nature of its methods as forced on it by the civil war, its state monopoly of all surplus of basic produce raised by peasants, its storage of produce at fixed prices, and its abolition of private trade. Figures on the area under cultivation in 1918–1921 show a diminution all over the country, although the decline was unevenly distributed. The Ukraine and the Northeast suffered least, the Northwest and the Southeast most. Notwithstanding the equalizing redivision of land, the distributive quota remained, on account of its nature described above, the great depressing factor in agriculture. Thus, although civil war raged continuously in the Ukraine, the diminution of the sown area there was only one-half or one-third of that in Great Russia. In Siberia, where there was also civil war, the decrease of the sown area was least of all, prior to the introduction of the distributive quota. This was introduced in Siberia in 1920, and in 1921 the sown area in that part of the country was at once cut down by almost one-fourth.<sup>28</sup>

By its famous decree of March 21, 1921, the All-Russian Central Executive Committee substituted a tax in kind for the distributive-quota collection of produce and raw materials, with all its organization as described.<sup>29</sup> This decree abolished the compulsory carrying out of the state's monopoly of the storage of agricultural produce and permitted free sales by farmers in the open market, although, to be sure, only within the limits of their localities. Later on, however, in November 1921, even this limitation was lifted.

<sup>28</sup> *Popular and State Economy in the U.S.S.R.*, published by the Commissariat of Finance, Moscow, 1923, p. 23.

<sup>29</sup> Decree of March 21, 1921, on the substitution of tax-in-kind for the distributive quota (*prodrazverstka*). Published in No. 26 of the *Collection of Government Acts*, 1921, Art. 147, and in No. 62 of *Izvestia*, March 23, 1921.

The new decree also cancelled the mutual responsibility of all producers of a village for one another and established individual responsibility of each household for itself alone. It lowered the extent of the compulsory, non-compensated state expropriations. The distributive quota was declared to be on the way to being abolished. But the payment-in-kind feature of the taxes remained in force until January 1, 1924, when they too were definitely abrogated. The first produce tax (1921-1922), which took the place of the distributive quota, was levied on the old basis of an enumeration in detail of the various supplies to be collected. Essentially, the first produce tax of 1921-1922 was not one tax but twelve distinct taxes: one, a basic tax on bread, potatoes, and oil seeds; the rest, specifically designated, on eggs, dairy produce, linen and hemp cloth, tobacco, wool, hay, garden and field vegetables, honey and wax, raw hides, meat, and furs.<sup>30</sup>

Nevertheless, those characteristic traits of the distributive quota which had had an especially repressive effect were abolished by the decree of March 21, 1921, and its sup-

<sup>30</sup> Decree of the Soviet of People's Commissars of April 21, 1921, concerning the tax in kind on bread, potatoes, and oil-bearing seeds. Published in *Collections of Government Acts*, 1921, No. 38, Art. 204, and in No. 87 of *Izvestia*, April 22, 1921; decree of the Soviet of the People's Commissars concerning the tax in kind on eggs, of April 21, 1921, published in *Acts*, 1921, No. 38, Art. 205, and *Izvestia*, No. 87, April 22, 1921. Decree of April 21, 1921, concerning same tax on dairy produce, published in *Acts*, 1921, No. 37, Art. 197, and No. 89 of *Izvestia*, April 24, 1921. Decree of May 10, 1921, concerning same tax on linen and hemp cloth, published in *Acts*, 1921, No. 51, Art. 291, and No. 102 of *Izvestia*, May 13, 1921. Decree of May 11, 1921, concerning same tax on tobacco, published in *Acts*, 1921, No. 49, Art. 252, and in No. 105 of *Izvestia*, May 17, 1921. Decree concerning same tax on wool, *Acts*, 1921, No. 48, Art. 235, and *Izvestia* No. 105, May 17, 1921. Decree concerning same tax on hay, *Acts*, 1921, No. 48, Art. 239, and *Izvestia*, No. 108, May 20, 1921. Decree of May 31, 1921, same tax on garden produce, *Acts*, 1921, No. 49, Art. 264, and No. 211 of *Izvestia*, June 4, 1921. Decree of June 3, 1921, same tax on apiary produce, *Acts*, 1921, No. 50, Art. 271, and No. 125 of *Izvestia*, June 9, 1921. Decree of June 14, 1921, same tax on meat, *Acts*, 1921, No. 51, Art. 281, and No. 133 of *Izvestia*, June 22, 1921. Decree of Soviet of People's Commissars, same tax on raw hides, of August 9, 1921, published in *Acts*, No. 60, Art. 415, and *Izvestia* No. 80, August 16, 1921. Decree concerning same tax on furs, of October 27, 1921, published in *Acts*, 1921, No. 74, Art. 603, and *Izvestia* No. 253, November 11, 1921.

plementary decree. The same law also opened the era of the new economic policy.

#### IV. LABOR DUTIES

One of the most important social problems which the Soviet government attacked soon after the October revolution was the general labor tax or duty. The "Declaration of the Rights of the Laboring and Exploited People" accepted at the Third All-Russian Conference of Soviets, January 24-31, 1918, read:

In order to annihilate the parasitic strata of society and their economic organization, a general obligation to labor is hereby declared. (Art. 3, paragraph E.)

The Russian Republic declares that labor is the duty of every citizen of the Republic and proclaims the principle: Whoever does not labor, shall not eat. (Art. 18.)

This declaration was subsequently incorporated in the Constitution (*Fundamental Laws*) of the Russian Republic, was accepted by the Fifth All-Russian Conference of Soviets on July 10, 1918, and stood unchanged up to 1921, that is, during the whole period of civil war.

As appears from the text just quoted, the duty to labor was not conceived as a fiscal measure, or as one intended to guarantee the material necessities of the state. It was declared as a fundamental principle of the new social organization in which there were to be no exploiters or exploited, where everyone labored and no social parasites could exist.

The duty, thus declared, of everyone to labor was not interpreted as a mere request to work and not be idle, but as an obligation to do the particular tasks which the government deemed it useful and necessary for each citizen to do. This meant the state's right to compel citizens to work wherever and at whatever the state saw fit. Subsequent special rulings set down with greater precision this right of the state to mobilize citizens for some particular task or to shift them from one job to another, and to repress idling and various ways of evading work. With regard to persons employed in state or co-operative establishments and undertakings this compulsion was carried out by legal prosecu-



tion of idling and by the transfer of employees from one job to another. However, idling is, of course, an anomaly and not a part of any economic system. Transfers of employees against their will, although a frequent occurrence, was not, however, a general practice. In practice it was possible to change employment rather freely.

Idling was punished by compulsory labor and fines were deducted from the resulting wages. "Idling obligates the delinquent to pay in labor for the time he lost, either after working hours or on holidays; also, workers and employees can be made to work out their fines outside their regular line of occupation, this extra work to be paid for at regular wage rates without any additions of premiums for overtime. . . . Idling for more than three days in one month causes the delinquent to be delivered to the disciplinary court, as for sabotage. . . . Persons evading the payment of their labor fines for idling are to be imprisoned in concentration camps."<sup>31</sup> Such were the measures naturally evolved from the principle of general labor duty.

In spite of these harsh compulsory measures, logical under the above-mentioned principle, the efficiency of labor and labor discipline in all departments and undertakings was, as is well known, not great. This was, however, explained by the general economic disintegration and by insufficient nutrition of the workers.

An economic measure really effective for the people's welfare as well as for that of the state proved to be the calling of workers to particular short tasks unconnected with their permanent occupation. Such a labor duty of statewide economic importance, proving to be one of the essential methods of satisfying public needs, was the team duty imposed during the civil war period on the rural inhabitants who as a rule are constantly occupied in the care of their small farms. This duty was a specific product of the "naturalization" of all economic relations and was one of those demands which the state made on private enter-

<sup>31</sup> Decree of the Soviet of People's Commissars of April 27, 1920, concerning the punishment of idling, published in No. 35 of the *Collection of Government Acts*, 1920, Art. 172, and in No. 100 of *Izvestia*, May 11, 1920.

prise in order to satisfy public needs. Also, it came to be, to a large extent, a noncompensated sacrifice on the part of peasants. That is why this measure may be cited among the other methods used by the state—including financial measures—for finding the wherewithal to satisfy the vital needs of the country.

The labor and team duties of the rural population consisted of furnishing labor, carts, and teams for the transport of goods and people, assistance to the families of Red Army soldiers, cutting and delivering firewood to the railways and the industrial undertakings, repairing roads, cleaning railroad tracks of snow, etc.

To some extent, those who fulfilled this labor duty were paid by the state; but this payment was altogether negligible, so that the duties remained without equivalent compensation and were compulsory.<sup>32</sup>

The mobilizing of peasants for all kinds of labor duty was entrusted to the citizens' soviets of each village, the so-called "village soviets," which are the basic unit in the local government of Soviet Russia. The regulations concerning rural soviets, confirmed by the All-Russian Central Executive Committee in its decree of February 1920, give the detailed order in which rural citizens should be made to bear this state duty.<sup>33</sup>

After the distributive quota, the labor and team duty represented the heaviest burden that the rural population had to carry during the civil war. Their net losses from this tax may be roughly estimated on the basis of data obtained in an investigation of peasant budgets showing the number of days which a peasant, with or without a horse, spent in fulfillment of his labor duty to the state in 1920-1921. Assuming the cost of a day's labor for man and horse at a certain figure in pre-war prices, multiplying it by the num-

<sup>32</sup> This "labor duty" is closely analogous to the road work required in many parts of the United States, often commutable into a road poll tax. (EDITORS.)

<sup>33</sup> Decree of the All-Russian Central Executive Committee regarding confirmation of the regulation concerning village soviets, published in No. 11 of *Collection of Government Acts*, 1920, Art. 68, and No. 34 of *Izvestia*, February 15, 1920.

ber of days, and subtracting from the sum total thus obtained the value of whatever payments were made to the peasants for this labor, whether in currency or in kind, A. L. Wainstein, in his book<sup>34</sup> concludes that the net losses of the rural inhabitants through labor and team duties in 1920-1921 were, in pre-war prices per one peasant farm, as follows:

#### THE BURDEN OF LABOR DUTY ON THE PEASANTS

	Consuming Districts of the U.S.S.R.	Producing Districts
1. Conventionally assumed net income, in rubles.....	301.6	320.8
2. Labor and team duties:		
a) Total net loss from above-mentioned duties in rubles..	60.1	53.1
b) Percentage of net loss to the conventional net income....	19.9	16.5
c) Minimum loss from above-mentioned duties ( $\frac{1}{3}$ of the total loss) in rubles.....	20.0	17.7
d) Percentage of minimum loss to conventional net income...	6.6	5.5

Here only one-third of the net losses of the peasants from labor and team duties is introduced into the estimate of the total expropriations from them in 1920-1921, on the assumption that this one-third was the lowest possible loss inflicted by these duties on their well-being—such as wear and tear of gear, the wearing out and dying of horses, etc. Consequently, this estimate hardly includes any consideration at all for the work of the men themselves in the fulfillment of their labor and team duties.

These duties existed in full force until the middle of 1922. Then, in accordance with a ruling made by the Soviet of Labor and Defense of July 13, 1922, they were gradually replaced by a money tax.

#### V. STATE PROPERTY AND UNDERTAKINGS

The civil war period of 1918-1921 was characterized by nationalization and consequently concentration in the hands

<sup>34</sup> A. L. Wainstein, *op. cit.*, pp. 64 ff. and table in its supplement.

of the state of a considerable share of the people's wealth and economic activities, namely, all of the rail transportation and that by river, lake, or sea, most of the industries, all of the foreign and most of the domestic trade, most of the city real estate, all of the forests, and a number of large agricultural undertakings.

Immediately after the October Revolution, the abolition of the landlords' rights to their land and the nationalization of all land and forest was decreed.<sup>35</sup> Soon afterward the decree concerning socialization of land was published, which established the principles of the nationalization of land and of its disposal, and regulated its use by workers.<sup>36</sup> The fundamental rulings of that law were:

ARTICLE 1. All private ownership of land, underground wealth, waters, forests, and forces of nature within the confines of the Russian Republic is abolished forever.

ART. 2. The land is put at the disposal of working people, without any compensation whatsoever, whether open or disguised.

ART. 3. The right of using land belongs only to those who labor at it with their own hands, except in cases especially enumerated in this law where temporary assistance by hired labor is permitted.

ART. 4. The right of using land may not be limited on the ground of sex, religion, nationality, or foreign citizenship.

ART. 5. The disposal of underground wealth, forest, waters, and natural forces is reserved, depending on their ultimate destination, to the uezd, gubernia, regional, and federal Soviet authorities under the control of the latter.

ART. 6. All the private agricultural personal property and buildings whether live stock or other (tools, implements, etc.) is hereby transferred from non-laboring owners to the disposal—depending on its importance—of the uezd, gubernia, regional, or federal land offices.

<sup>35</sup> Decree on land, formulated and adopted by the Second Conference of Soviets on October 26, 1917 (old calendar), at two o'clock in the morning, published in No. 1 of the *Gazette of the Temporary Government of the Workers and Peasants*, October 26, 1917, and in the *Collection of Government Acts*, 1917, No. 1, Art. 3.

<sup>36</sup> Fundamental law on land, published in No. 27 of the *Gazette of the Temporary Government of the Workers and Peasants*, 1918. Decree of the All-Russian Central Executive Committee on socialization of land, in *Collection of Government Acts*, 1918, No. 25, Art. 346.

ART. 7. All buildings included in property as per Article 6, whether for agricultural or industrial purposes, are transferred, without any compensation, and according to their importance, into the control of uezd, gubernia, regional, or federal soviets.

The nationalization of land thus declared by the government transferred most of the land to the private labor control of the peasantry. Only on a small number of former landlords' estates were so-called "Soviet farms" organized, which, however, represented only a negligible area in comparison with the bulk of peasant farms. Besides, during the whole civil war period, 1918-1921, these Soviet farms had no significance, either economic or financial.

The state forest holding was considerably enlarged as a result of nationalization.<sup>37</sup> The use of these forest resources during the civil war consisted mostly of providing fuel and timber for railroads, government establishments, and the urban population. The railroads and government establishments, at that, mostly took care of themselves and took the wood they needed, without paying anything for it. The city people were supplied with firewood at fixed prices which soon approached gratuitousness. The peasants during the years 1918-1920, when the agrarian revolution was taking place, took full advantage of their opportunity to cut down forests without compensation to the state. Peasants also made some free sales of the fuel thus obtained to the people in nearby cities, bringing the wood in by team.

Foreign trade was nationalized by a special decree of April 22, 1918.<sup>38</sup> As a matter of fact, it had practically ceased in 1918-1920.

The naturalization of practically the entire private trade within the country was carried out in connection with the food administration measures of the government. This pro-

<sup>37</sup> Nationalization of forests, the order of their management and use, were set forth in a special decree of the All-Russian Central Executive Committee concerning forests—*Collection of Government Acts*, 1918, No. 42, Art. 522, and *Izvestia*, Nos. 118 and 120, July 11 and 13, 1918; also *Collection of Decrees and Rulings on National Economy*, published by the Supreme Economic Council, Moscow, 1918, Vol. I, pp. 52 ff.

<sup>38</sup> Published in *Collection of Government Acts*, 1918, No. 33, Art. 432, and *Izvestia*, No. 80, April 23, 1918.

cedure was described above in Section III on compulsory payments in kind. As a matter of fact, scattered private trade continued to exist on a semi-legal basis. Its importance, however, was small compared with the compulsory collection of agricultural produce by the state and the state distribution of agricultural and industrial goods among consumers at fixed prices.

The nationalization of the river and sea fleets and of the private railroads took place early in 1918. The management of all of the country's transportation means was concentrated in the Commissariat of Ways and Communication.

The process of nationalization of industry was a very complicated one. At first, mere surveillance by the state and by the workers was established, and only during 1918 and 1919 did full nationalization take place. The decrees concerning nationalization are very numerous. At first, individual undertakings were nationalized on various particular grounds such as refusal to submit to state or workers' control, disorganization, indebtedness, etc. Subsequently, however, whole branches of industry and whole groups of undertakings within a district were nationalized.

Later on, this process of nationalization spread widely, and in the end most of the country's industry became nationalized. By and large, this process came to its completion in the middle of 1919, after which only a general accounting of the nationalized undertakings and their final handing over to the centralized management had to be carried out.<sup>89</sup> This

<sup>89</sup> Measures for the nationalization of industry progressed as follows:

At the moment of the October 1917 Revolution the newly organized Soviet of People's Commissars intended to nationalize only the largest industrial units. They announced:

"No person will be deprived by us of his property except under the special law on nationalization of banks and syndicates. This law is at present in preparation." (Appeal of the Chairman of the Soviet of People's Commissars, V. Ulianov [Lenin] to the population, published in *Collection of Government Acts*, 1917, Art. 22, and *Gazette of the Temporary Government of the Workers and Peasants Governments*, No. 6, November 8, 1917.)

As a preparatory measure, workers' surveillance was introduced in all industrial, banking, agricultural, and other undertakings employing hired workers. (Regulations on workers' control, of November 14, 1917, *Collection of Government Acts*, 1917, No. 3, Art. 35.)

Further on, the "Declaration of Rights of Laboring and Exploited

management of industry in its various branches was in the hands of the head offices and departments of the Supreme Economic Council.

What were the practical results of nationalization?

People," adopted at the Third Conference of Soviets, repeated, in its Article 2: "As a first step toward the complete transfer of factories, works, mines, railroads, and other means of production and transportation into the ownership of the Worker-Peasant Republic, the Soviet laws regarding surveillance of industrial undertakings, etc., by workers and the establishment of the office of the Supreme Economic Council for the purpose of guaranteeing the control of workers over exploiters are hereby confirmed." (*Collection of Government Acts*, 1918, No. 15, Art. 215.)

The methods of transfer of industrial undertakings to the state were outlined even in the first decree concerning the Supreme Economic Council, to which organization, according to Article 3 of the decree, was given "the right of confiscation, requisition, sequestration, compulsory syndication, of various branches of industry and trade, and the right of taking other measures in the domain of production, distribution, and state finances." (*Collection of Government Acts*, 1917, No. 5, Art. 83.)

Every issue of the *Collection of Government Acts* for this period contains several decrees on the confiscation of particular undertakings, and later, on their nationalization. The number of nationalized undertakings may be estimated from the fact that as early as on March 31, 1918, it became necessary for the Soviet of People's Commissars to publish a ruling concerning "the order of examining estimates of the nationalized and sequestered undertakings." (*Collection of Government Acts*, 1918, No. 30, Art. 396.)

As a temporary measure, a ruling was made on April 20, 1918, by the People's Commissariat of Trade and Industry "concerning legal limitations of trade and commercial-industrial undertakings," which forbade the sale, purchase, etc., of such undertakings. (*Ibid.*, April 22, No. 32, Art. 425.)

Thereupon began the declaration of undertakings as government property, by groups.

First came such a declaration on February 21, 1918, with regard to the Nicolo-Pavdinski mining district with all the undertakings it comprised.

In the spring of 1918 were organized a number of chief and central committees (on sugar, tea, peat, petroleum, matches, etc.) under which entire branches of industry were nationalized, as follows: (1) The sugar industry, by a decree of the Soviet of People's Commissars of May 2, 1918 (*Collection of Government Acts*, 1918, No. 34, Art. 457). (2) The petroleum industry, by the decree of the Supreme Economic Council of June 17, 1918 (*ibid.*, No. 45, Art. 546).

All works and undertakings comprised in the latter branch were declared government property.

Soon thereafter a general decree of the Soviet of People's Commissars of June 28, 1918, was published on "the nationalization of the largest undertakings in the mining, metallurgical, metal-working, textile, electro-technical, ceramic, tanning, cement, and other branches of industry, steam mills, undertakings for the purpose of local welfare and those pertaining to railroad transportation." This decree cited certain undertakings by

In 1920 the Central Statistical Office made a census which yielded very interesting material concerning the condition of industry at the moment when its nationalization was completed and when state industry took on definitely the forms it had during the civil war period of 1918-1921.<sup>40</sup>

In 1920 the state owned 10.6 per cent of all establishments, employing in all 53.3 per cent of all the people industrially engaged and 90.1 per cent of all hired workers. Private and co-operative undertakings owned 13.7 per cent of all the industrial establishments, employing in all 21.5 per cent of all the people industrially engaged. Peasant handicraft workers and artisans owned 74.1 per cent of all the industrial undertakings of the country, employing 25.2 per cent of all the people industrially engaged.<sup>41</sup>

Practically all big industry came in 1920 into the hands of the state and only a negligible part of the large industrial plants remained un-nationalized. At that, these latter plants

name, while others were classed according to the capital involved (1,000,000 rubles for some branches and 500,000 for others). (*Ibid.*, 1918, No. 47, Art. 559.)

From a supplement to the latter decree dated August 19, 1918, we can see that nationalization progressed comparatively slowly, for this supplementary decree orders the People's Bank of the Republic to continue supplying private undertakings with credit on the basis of earlier rulings and in the persons of their former owners or directors, until further publication of separate orders of the Supreme Economic Council for each undertaking to be taken from the disposal of its former owner.

Complete nationalization was not effected until the Supreme Economic Council (and not the Soviet of People's Commissars) decree of November 29, 1920, which contained "Rulings concerning the nationalization of undertakings" and declared nationalized all places employing more than five hired workers (*Ibid.*, 1920, No. 93, Art. 512, and *Economicheskaja Zhizn* [daily], No. 273, of December 4, 1920).

<sup>40</sup> The results of the industrial census are published in P. I. Popov's article, "Industry in the Russian Republic in 1912-1922," which appeared in the collection-volume entitled *Na novykh putiakh* ("Upon New Trails"). Totals of the New Economic Policy, 1921-1922, Moscow, 1923, pp. 15 ff., published by S.T.O. (Soviet of Labor and Defense.)

<sup>41</sup> The percentages of "all establishments," namely, 10.6 per cent, 13.7 per cent, and 74.1 per cent, make only 98.4 per cent, an apparent error of 1.6 per cent. The group here designated as "hired workers" appears to be restricted to persons who under the old régime would have been wage workers, while the group designated "industrially engaged" includes also those conducting individually small shops not nationalized. (EDITORS.)



were not so much in private hands as in those of co-operative organizations. Of the total number of hired workers in all state-controlled undertakings, 89.4 per cent worked in shops employing 30 and more individuals each; whereas of the whole country's total of employed workers in private and co-operative undertakings only 36 per cent worked in establishments employing 30 or more people, the remaining 64 per cent being employed in small and medium-sized plants. Of the total number of hired workers in the country (1,845,000), 230,000 worked in private and co-operative undertakings, making over 12 per cent of the total number. Consequently nearly 88 per cent of the total number worked in state undertakings.<sup>42</sup>

Thus by 1920 the industry of the country was for the most part in the hands of the state.

The extent of industrial production for the satisfaction of the country's requirements cannot be established (for that period) because of the complete disorganization of all accounting between industry and the state budget and state offices. Fixed prices, which fell more and more behind those of the free market, deprived all money estimates of their significance, and the state industry finally refused to keep accounts in money figures. Later, gratuitous supply was formally established. Attempts at obtaining a balance of the receipts and expenditures of industry in 1918-1920 have revealed only the impossibility of expressing this balance in figures.<sup>43</sup> We can only make conjectures as to tendencies and get a general idea of what industry contributed for the public needs.

At the beginning of the Revolution the Russian industrial plants were largely run on equipment worn out and antiquated to a greater degree even than at the beginning of the World War. In the course of 1917—after the February Revolution—industry suffered further decline. Its capital, accumulated during the war, began to depreciate, and even as early as that year considerable financial subsidizing

<sup>42</sup> See P. I. Popov's above-cited article, p. 178.

<sup>43</sup> See A. B. Stern, *State Financing of Industry in 1918-1924*, an attempt at investigation (Moscow, 1924), pp. 10-38.

of industry by the state was practiced. By the time nationalization began, industry was greatly weakened financially as well as in its equipment. It still possessed, however, vast stores of finished goods, half-manufactured goods, raw materials, and fuel. During the civil war these stores proved to be a very appreciable resource from which industry could be carried on and public needs satisfied.

According to various approximate, though inexact, estimates, the average productivity of industry in 1919-1920 was no more than 15-20 per cent of the pre-war figure. The following data on the quantities of various manufactures illustrate this industrial decline:

QUANTITIES OF SELECTED MANUFACTURES, 1912, 1919,  
AND 1920<sup>44</sup>

Production	1912	1919	1920
Locomotives .....	610	74	90
Railroad cars .....	10,372	1,900	854
Portland cement (thousand barrels)	7,458	40	120
Acids (thousand puds).....	16,054.8	1,032.1	1,778.3
Soda ash (thousand puds).....	2,833.9	247.7	875.2
Superphosphates (thousand puds) ..	3,370.3	152.1	328.9
Overshoes (thousand pairs).....	30,000	2,676.2	1,020.0
Matches (thousand cases).....	3,704	1,008	633
Finished cotton textiles (million arshins) .....	2,850.1	.....	153.1
Finished woolen textiles (million arshins) .....	168.9	16.5	21.1
Finished linen textiles (million square arshins) .....	621.8*	69.5	45.3
Sugar (thousand tons).....	1,643.2	333.2	79.4
Paper (thousand puds).....	11,546.0	2,638.0	2,097.0
Large hides (pieces).....	603.9†	2,613.0	2,467.0
Small hides (pieces).....	1,102.8‡	4,517.0	3,665.0

\* In thousand puds; besides unfinished (unbleached) textiles to the amount of 1,423.5 thousand puds.

† Besides this, 1,652.1 thousand puds.

‡ Besides this to the amount of 661,000 rubles.

As a result of the disorganization of the budget and the "naturalization" of economic relations, the financing of in-

<sup>44</sup> Publication of the Supreme Economic Council, *Industry for Ten Years, 1917-1927*, edited by V. P. Kulbyshev, Moscow, 1927, pp. 14-15.

dustry according to estimates drawn up under the law could not be carried out. Resources necessary to carry on industry were obtained mostly from outside the budget,<sup>45</sup> and the latter only confirmed such subventions. On the other hand, the distribution of manufactured goods often went on independently of the budget. One fact was beyond doubt, namely, that what industry handed out for the satisfaction of the country's requirements came from previously accumulated stores. Thus the nationalized industry, along with the distributive quota, the paper-money issues, and the taxes in kind, was one of the main sources from which the needs of the state were supplied in 1918-1919.

Despite the disorganization of the budget, the consumption of the nationalized industrial stores for the benefit of the state was highly centralized in the hands of offices and departments of the Supreme Economic Council (the so-called Head Committees).<sup>46</sup>

#### VI. PAPER-MONEY ISSUES AS A SOURCE OF STATE REVENUE

One of the chief resources of the state during the civil war period was the issuing of paper money. During that period it was the only considerable financial revenue, for the other cash receipts, such as taxes, had dwindled to insignificance. The deficits which the state budgets of 1918-1921 officially show were in reality due to the paper-currency issues.

In the course of the four years from 1918 to 1921 the budget estimates were expressed in the following figures:

#### BUDGET ESTIMATES, 1918-1921

(Million rubles)

Year	Receipts	Expenditures	Deficit
1918 .....	15,580	46,706	31,126
1919 .....	48,959	215,402	166,443
1920 .....	159,604	1,215,159	1,055,555
1921 .....	4,139,900	26,076,816	21,936,916

<sup>45</sup> See L. Kritzman, *Heroic Period of the Great Russian Revolution* (Moscow, 1924), pp. 98 ff.; also, G. Zipserowitz, "Glavkism" (Moscow, 1924).

<sup>46</sup> "Budget" as here used seems to mean the entire accounting of all possible government resources and expenditures, including goods in kind, capital outlays, etc. (EDITORS.)

The budget deficits of these years were covered by paper-currency issues which yielded the following amounts:

# BUDGET DEFICIT COVERED BY PAPER CURRENCY, 1918-1921

(Million rubles)

Year	Nominal Paper Value	Value as per Labor Statistics Index
1918 .....	33,676	536.2
1919 .....	164,401	224.6
1920 .....	943,581	122.0
1921 .....	16,370,635	149.0

If we compare the figures for the effective purchasing power of the paper issues in these years with similar figures for the war period we see that after 1917 the purchasing power of paper issues declined rapidly until in 1921 it took over 100,000 paper rubles to equal one pre-war ruble.<sup>47</sup>

The depreciation of the ruble proceeded more rapidly than the paper issues were increased. Conversely, in the course of the whole period 1918-1921 prices rose continuously and at a rate faster than the increase of the paper issues.<sup>48</sup>

<sup>47</sup> If these figures are correct, one cent (U.S.A. money) equaled 2,000 paper rubles. (EDITORS.)

<sup>48</sup> The phenomenon with which the author is here concerned is perhaps most easily explained by the simple formula commonly used by economists

to express the level of prices. It is  $P = \frac{MV}{T}$ , where  $P$  is the level of prices,  $M$  the quantity of money in circulation,  $V$  the velocity of its circulation, and  $T$  the quantity of goods offered for sale. It is readily to be seen that if  $M$  doubles,  $V$  and  $T$  remaining the same,  $P$  should double. So too if  $V$  doubles at the same time that  $M$  doubles,  $T$  alone remaining the same,  $P$  will quadruple. Finally, if  $M$  and  $V$  both double and  $T$  is cut in two,  $P$  will be multiplied eightfold.

There is, however, still another factor to be considered, namely, distrust. When the government is pouring out paper money in great quantities people fear rapid depreciation and are reluctant to sell goods for money, thus in effect decreasing  $T$ . Distrust also affects  $V$ , for if you receive 1,000 rubles which you fear may drop by tomorrow to half their purchasing power of today, you spend them as fast as you can and so does everyone else, and each ruble moves with great velocity. Finally it must be noted that when prices are rising rapidly each issue the government makes must be larger than its predecessor, and  $M$  grows very fast. In Russia in the period under review  $M$  was being increased rapidly,  $V$  became as great as it possibly could, and  $T$ , the quantity of goods for sale, was being reduced by the government's own policy of taking goods into

The rapid depreciation of money was due not only to the growth of money issues but also to a retrogression of the country's economic production and the naturalization of economic relations.<sup>49</sup>

Toward the end of the civil war, when the system of military communism became clearly defined and further social development seemed to tend in the direction of complete naturalization of all economic relations, it was recognized that paper issues were not only a convenient method of financing the Revolution but also a handy way of combating the bourgeois régime because of the disorganization of money circulation which such issues produced. The booklet of F. Preobrazhensky, *Paper Money during the Proletarian Dictatorship* (State Publishing House, Moscow, 1920), will forever serve as a significant memorial of this mode of thinking. The author says in his preface (p. 4) :

I would like to dedicate this imperfect work of mine to the one who, by the perfection of his own work and by its unbounded abundance, gave me the impulse to write these pages. I refer to the printing press of the People's Commissariat of Finance. The revolutionary government of France managed to exist and to wage war thanks to paper issues; the "assignats" saved the Great French Revolution. The paper money of the Soviet Republic has supported the Soviet government in its most difficult moments, when there was no possibility of paying for civil war out of direct tax receipts. Glory to the printing press! To be sure, its days are numbered now, but it has accomplished three-quarters of its task. In the archives of the great proletarian revolution, alongside the modern guns, rifles, and machine guns which mowed down the enemies of the proletariat, an honorary place will be occupied by that machine-gun of the People's Commissariat of Finance which attacked the bourgeois régime in its rear—its monetary system—by converting the bourgeois economic law of money circulation into a *means of destruction of that same régime* [italics by K. Shmelev], and into a source of financing the revolution.

---

its own storehouses for distribution other than by sale, as well as by the disorder caused by war and revolution. No wonder prices soared and the paper ruble became of little worth.

The editors have regretfully cut out at this point some tables felt to be too complicated to be readily understood. (EDITORS.)

<sup>49</sup> The latter taking goods out of the market and leaving an ever smaller stock of goods to be exchanged against the larger and ever larger supply of money. (EDITORS.)

## VII. TAXES AND OTHER FINANCIAL RESOURCES

Before the October 1917 Revolution all taxes in Russia were levied in money. Their fiscal productivity had sharply declined before the October Revolution. In 1917 state and local taxes together yielded only about one-fifth or, more exactly, 22 per cent of what they had yielded in 1913 if computed in gold rubles of pre-war purchasing power according to the cost-of-living budget index of the Bureau of Labor Statistics. After the October Revolution, however, the disorganization of the money system had increased sharply, and toward the end of 1919 the money taxes yielded practically no revenue.

Having permitted the fiscal productivity of the tax system to decline during the war of 1914–1917, the monarchy and subsequently the Kerensky government had developed a system of loans and paper-money issues. The Soviet government, from its very first days, in consequence of conditions created by the civil war, was deprived of the possibility of using loans as a source of state support. It did use its privilege of paper issues to the fullest extent, but these issues could not yield much. Their fiscal value was falling in consequence of the general economic decline in the country and of the rapid naturalization process in all the economic relations of the nation. As the Soviet government stepped onto the path of extensive nationalization and of a liquidation of private trade, it began to develop the “natural” methods of using such economic resources as agricultural produce and labor. These natural methods were the following: first, compulsory collections in kind from the rural population which later assumed the form of the distributive quota; second, labor duties, especially on the rural population; third, consumption of previously accumulated stores and of government-owned transportation and industrial undertakings to supply public requirements. Together with paper issues, these measures were the chief means of support of the state.

However, during the first year of Soviet rule, 1918, a somewhat important part in the support of the state and the

local governments was played by money taxes and by the contributions levied on propertied classes, including confiscation of individually owned valuables and precious metals. At the same time, almost to the end of the civil war, in 1921, the Soviet government would not give up the idea of preserving money taxes which it intended to adapt in one way or another to the new conditions and to put into accord with compulsory collections in kind.

The money taxes, contributions, and confiscations during the civil war period fall into three classes:

1. Levies of extraordinary revolutionary taxes on the propertied classes.
2. Permanent taxes, state-wide and local.
3. Confiscation of precious metals—gold, silver, and platinum—in coin, bullion, and manufactured gold articles, and of paper securities.

Pressed for means, the local organs of the Soviet government, from its very beginning, developed extensively the practice of local contributions or extraordinary individual revolutionary taxes. These were assessed by the local soviets on their own initiative and without any authorization from the central authorities. As a rule they were levied upon the well-to-do classes. However, material well-being was understood in a very wide sense, so that not only the upper and the middle classes but also the petty bourgeoisie were subjected to these levies. While these unauthorized levies supplied the local organs with some means, they badly disorganized the collection of ordinary taxes that had survived from before the October revolution. Besides, the chaotic and extraordinary character of this occasional taxation excited much resentment. The central authorities were therefore obliged to regulate and considerably restrict the right of local authorities in this respect. The following measures were taken: First, on April 11, 1918, a decree was promulgated forbidding local soviets to levy contributions from state establishments and undertakings.<sup>50</sup> Second, on October 31, 1918, a brief ruling was made concerning single-

<sup>50</sup> Published in *Collection of Government Acts*, 1918, No. 31, Art. 408.

payment extraordinary revolutionary taxes (capital levies) imposed by local soviets. This ruling gave general regulations for such taxes.<sup>51</sup> Third, on December 3, 1918, was promulgated an extensive ruling concerning the revenues and expenses of local soviets.<sup>52</sup> By all these rulings as well as through administrative measures, the practice of levying extraordinary revolutionary taxes was greatly reduced. Extraordinary taxation was allowed only in the form of payments in currency, and at that only in regard to persons of the propertied class. As the naturalization of economic relations, industry, and trade progressed, the possible objects of extraordinary taxation left at the disposal of local soviets gradually vanished; and finally, local extraordinary taxes, highly developed in 1918, disappeared from practice in 1919.<sup>53</sup>

At the close of 1918 the central government also made an attempt at introducing a state-wide single-payment extraordinary tax (capital levy).<sup>54</sup> The corresponding decree of the All-Russian Central Executive Committee of October 30, 1918, fixed the total sum of the tax to be levied at 10 billion paper rubles. This sum was to be apportioned among gubernias, uyezds, and cities. Thereupon the uyezds apportioned their quota among volosts, the volosts among their villages, and the villages among individual payers. Citizens were to be taxed who had incomes of over 1,500 rubles a month, and more particularly citizens with unearned incomes, or possessing moneyed capital. The decree required the tax to rest entirely "on the wealthy part of the city populations and the wealthy peasants." In practice, however, cases were known where fairly wide strata of the people were called upon to pay this tax, especially peasants

<sup>51</sup> *Collection of Government Acts*, 1918, No. 81, Art. 848.

<sup>52</sup> *Ibid.*, 1918, No. 93, Art. 931, and in No. 272 of *Izvestia*, December 12, 1918.

<sup>53</sup> Details of the local taxation will be found below in Section IX, B, of this chapter, concerning local finances.

<sup>54</sup> Decree of the All-Russian Central Executive Committee of October 30, 1918, concerning the extraordinary ten-billion revolutionary tax; published in *Collection of Government Acts*, 1918, No. 80, Art. 841, and No. 240 of *Izvestia*, November 2, 1918.



of the middle class; and it was precisely in these cases that collections were most successful. On the whole, however, the tax had no appreciable fiscal significance, for the original bases of taxation were no longer in existence, and the middle-class peasants soon had to be exempted because the whole peasantry was overburdened with compulsory payments in kind and with labor duties.<sup>55</sup> Most of the campaign for the collection of the ten-billion-ruble tax ended in the middle of 1919. From the whole country about 1,500 million rubles (paper) had been collected by that time. Further collection proved to be impossible, owing to the absence of the objects and sources of the levy.

This tax had some political importance, being a measure that increased the pressure upon propertied classes. It also demonstrated how complete had been the success of the expropriation of the bourgeoisie. Furthermore it showed that no possibilities were left for money taxation after the naturalization of industry and commerce and the development of compulsory collections in kind.

As far as permanent taxation was concerned, the Soviet rule had inherited from the preceding governments an entire system, which, however, proved unproductive in the final count. Of this, the most important national taxes were the income tax,<sup>56</sup> the trade license tax, the house tax on city real estate, stamp duties, the land tax, the tax on money capital, the excises, and the customs duties. Of local taxes of importance existing at the moment of revolution, there were the following: the zemstvo tax on lands, forests, and trade-industrial enterprises; the house tax; the apartment tax (assessment tax); the per-pud tax on merchandise transported by rail; and the tax on restaurants.

The government did not renounce this inheritance, and with respect to most of these taxes it even took steps for their collection. It was, however, obliged to modify them

<sup>55</sup> Decree of the All-Russian Central Executive Committee of April 9, 1919, giving extensive and lenient payment terms to middle-class peasants.

<sup>56</sup> See chapter one, pp. 47 ff., above, for an account of the abortive attempt to introduce an income tax under Tsardom. The income tax appears to be an acquisition, not an inheritance. (EDITORS.)

in various ways: first, to emphasize the class principle involved in Soviet rule and consequently to tax the wealthy and well-to-do at a higher rate than the others; and, second, for the purpose of putting these taxes into accord with the changed conditions of life. The progression of the income tax scale was increased, and the confiscation of the surplus of large incomes declared. Thus, in districts assigned to the first class, such as Moscow, Leningrad, and several other cities, the maximum of permitted income was 72,000 rubles (paper) after the deduction of the income tax (decree of March 27, 1919); all excess over that sum was to be surrendered to the government as tax. An unsuccessful attempt was made at introducing the income tax among the rural population (decree of January 21, 1919). The trade license tax suffered great changes: the license certificate charge was abolished and a registration duty substituted for it; also a turnover (sales) tax was established.

Again, however, as the compulsory collections in kind from the peasants progressed and industry and trade were becoming nationalized,<sup>57</sup> the objects of taxation continued to diminish, so that, in spite of the extreme depreciation of money, the nominal amount of direct tax revenue collected in 1919 did not materially exceed that collected in 1918. In that year it amounted to 677 million paper rubles, and in 1919 to 861 million. As a matter of fact, in the presence of catastrophic money depreciation, this amount meant the complete ineffectiveness of direct taxation.

Customs revenues ceased immediately after the October Revolution, owing to the stoppage of foreign trade. Excise revenues steadily decreased in consequence of the naturalization of economic relations and the increase of free distribution of produce. The government made efforts to conserve its excise revenue even in spite of the nationalization of industry. With this in view, the excises were technically replaced by compulsory surtaxes on the price of goods that

<sup>57</sup> It should be borne in mind that the products of "nationalized" industry were largely "naturalized," i.e., distributed as rations, not sold. (EDITORS.)

were formerly subject to excise.<sup>58</sup> However, under the conditions of nationalized industry, excises, even in this new form, rapidly lost their significance. The decree of January 17 and February 26, 1920, formally abolished them.<sup>59</sup>

Special attention should be given to the attempt to substitute taxes in kind for money taxes. In place of the state land tax decree of the All-Russian Central Executive Committee of October 30, 1918, a tax in kind on the rural population was imposed. The distributive quota led, however, to a complete liquidation of this tax during the very first campaign for its collection in 1919.

Local taxation yielded some revenue all during 1918. But even in 1919 its sources became exhausted, first, because it consisted of money taxes mostly; second, because of the levying of the distributive quota; and, third, because nationalized works and factories were exempt from taxation. Naturalization of economic relations thus led to a gradual extinction of money taxes. Converting them into taxes in kind proved futile, for all "natural" taxation (i.e., in kind) had already essentially converged in the one distributive quota. In consideration of this, part of the money taxes, such as the stamp duty and the tax on money capital, were abolished. With regard to the remaining taxes, the project existed at one time of converting them into a single income tax and a property tax to be levied on property which, although not yielding any income, exceeded a certain stipulated amount. This tax was to be levied in money as well as in kind, following the principle of heavy taxation of all unearned income. It was proposed to raise this tax to such proportions as would make it a source of support for the state budget.<sup>60</sup> This project, however, was never worked out

<sup>58</sup> Decree of the Soviet of People's Commissars of November 21, 1918, as to reorganization of distribution to the rural population of supplies and goods for personal consumption and farming, published as No. 83 of *Collection of Government Acts*, 1918, Art. 879.

<sup>59</sup> Decree of the Soviet of People's Commissars of November 17, 1920, in re abolition of excises, published in No. 52 of *Izvestia*, March 7, 1920.

<sup>60</sup> Resolution of the All-Russian Central Executive Committee, June 18, 1920.

to the end, for it became evident that no other taxes could be levied simultaneously with the distributive quota. The All-Russian Central Executive Committee decree of February 3, 1921, formally stopped the levying of all taxes, state and local alike, taxes in kind included. The distributive quota, which was not formally considered a tax, alone remained.

The confiscation of valuables, carried out during the first months of the Soviet government, was closely akin to extraordinary taxation. According to the decree of December 14, 1917, concerning the inspection of safe deposit boxes, all paper money found in them was to be deposited with the State Bank, to the current account of the owner, while gold in coin and bullion was to be confiscated. Upon publication of the decree concerning the extraordinary revolutionary tax, all valuables found in safes and appraised in excess of 10,000 rubles were declared part of the state revenue, to apply on the extraordinary tax to be paid by the owners of the safes. The decree of April 15, 1920, finally stopped all payments from savings and loan banks, and all deposits not returned to the owner were declared the property of the state.

On January 12, 1918, the Supreme Economic Council declared "the government monopoly of trade in gold" of every description except manufactured gold articles and demanded the surrender of all raw gold and all gold articles weighing more than 16 zolotniks,<sup>61</sup> at fixed prices (32 rubles in paper for a zolotnik of 96 per cent gold). Gold not surrendered within a month's time was declared confiscated. The decree of July 25, 1920, and the one published in its

<sup>61</sup> A zolotnik equals 65.32 grains, and if containing 96 per cent gold would be worth \$2.72 in U.S. money, or 5.28 rubles of the old-standard Russian ruble. At 32 rubles per zolotnik the government was recognizing a depreciation in the paper ruble of 6 to 1. But in January 1918 it took 21 paper rubles to equal 1 gold ruble. So the depositor of gold received less than one-third of the value of his gold.

Gold articles weighing 16 zolotniks 96 per cent fine would contain \$43.52 worth of pure gold and weigh over two ounces, standard. The common run of articles of jewelry would not be included in the list. (EDITORS.)

modification of January 3, 1921, fixed the complete list of precious metals, moneys, and valuables to be confiscated or requisitioned. This decree confirmed the state monopoly of precious metals, whether in coin, bullion, or unrefined.

#### VIII. CANCELLATION OF PUBLIC DEBTS AND PRIVATE SECURITIES

One of the most important acts of the Soviet rule which was carried out soon after the October Revolution was the cancellation of public debts—not only as a financial measure but as a revolutionary tactical move.

State debts were cancelled by the All-Russian Central Executive Committee's decree of January 21, 1918.<sup>62</sup> This decree annulled not only state debts properly speaking, but all state guaranties of loans made by various undertakings and institutions.

Unconditionally, and without any exceptions, all foreign debts were cancelled. Short-term obligations and serial bonds of the State Treasury were declared ordinary paper money and admitted to circulation as such.

Citizens of small means who owned cancelled bonds not in excess of 10,000 rubles nominal value were given certain compensations. By a special decree of the Soviet of People's Commissars of October 26, 1918, concerning cancelled interest-bearing bonds,<sup>63</sup> the nominal value [in paper, then depreciated to about one per cent of face—EDITORS] of cancelled bonds owned by small holders was deposited in their respective current accounts at the People's Bank of the Russian Republic. Within the limits of these accounts, the holders were then granted monthly cash payments to the extent of a minimum living. Formally, these payments lasted until the fall of 1920 and were discontinued by the decree of September 16, 1920; as a matter of fact, however, they had stopped long before that date, owing to depreciation of currency. And even as early as October 1918 it meant a consid-

<sup>62</sup> Published in No. 27 of the *Collection of Government Acts*, 1918, Art. 353, and in No. 20 of the *Gazette of the Temporary Government of the Workers and Peasants*, January 28, 1918.

<sup>63</sup> Published in No. 79 of the *Collection of Government Acts*, 1918, Art. 834, and in No. 237 of *Izvestia*, October 30, 1918.

erable loss (i.e., 99 per cent) to the holders to have only the nominal values of their bonds deposited to their current accounts.

All loans and debts of the former zemstvo and municipal governments were cancelled by a special decree of October 9, 1919.<sup>64</sup>

Even before the cancellations declared by the decree of January 21, 1918, a special decree of December 27, 1917, stopped all payments of interest on bonds and dividends on shares of stock of private undertakings.

With the nationalization of banks, industries, and trade, the shares of stock in nationalized undertakings were cancelled, as well as all the private interests in those undertakings. This was confirmed by special decrees.

#### IX. THE BUDGET SYSTEM DURING THE CIVIL WAR PERIOD

##### A. THE STATE BUDGET

The provisions of the Constitution (*Fundamental Laws*) of the Soviet State, published in 1918,<sup>65</sup> relative to the budget system, read as follows:

ARTICLE 79. The financial policy of the Russian Republic in this transition period of the workers' dictatorship has one fundamental aim: the expropriation of the bourgeoisie and the preparation of conditions favorable to the equality of all citizens of the republic with regard to the production and distribution of wealth. For this purpose, the above policy aims at supplying the organs of the Soviet government with all the necessary means for the satisfaction of local and state requirements of the Soviet Republic, not hesitating at the infringement of rights of private property.

ART. 80. The revenues and duties of the Russian Republic are united into one common state budget.

ART. 81. The All-Russian Conference of Soviets, or the All-Russian Central Executive Committee, will determine which particular revenues and duties belong within this common state budget and which are left at the disposal of the local soviets; also it will determine the limits of taxation.

ART. 82. The local soviets establish only those taxes and duties

<sup>64</sup> Published in *Collection of Government Acts*, 1919, No. 50, Art. 487, and in No. 228 of *Izvestia*, October 12, 1919.

<sup>65</sup> Published in No. 51 of the *Collection of Government Acts*, 1918, Art. 582, and in No. 151 of *Izvestia*, July 19, 1918.

which go to satisfy local needs; the national (state) requirements are to be provided for by the State Treasury.

ART. 83. No expenditure of funds from the State Treasury can be made without a corresponding credit having been previously set up in the estimate of state revenues and expenditures or without a special ruling of the central authorities.

ART. 84. To satisfy the requirements of the state, the local soviets will receive, through the corresponding People's Commissariats, necessary credits from the State Treasury.

ART. 85. All credits granted to the local soviets from State Treasury funds, as well as credits ratified in their estimates of local needs, are to be spent according to the directions given in the estimates and for the purposes designated, and cannot be diverted to the satisfaction of any other requirement without a special ruling of the All-Russian Central Executive Committee and the Soviet of People's Commissars.

ART. 86. The local soviets shall make yearly and half-yearly estimates of revenues and expenditures for local needs. The rural and volost estimates, as well as those of municipal soviets which take part in uezd conferences, and the estimates of uezd organs of Soviet government are to be confirmed, respectively, by the gubernia or regional Conference of Soviets or its executive committee. The estimates of municipal gubernia and regional organs of Soviet rule are to be confirmed by the All-Russian Central Executive Committee of Soviets and the Soviet of People's Commissars.

ART. 87. For purposes not provided for in the estimates, and in cases where estimated appropriations are insufficient, supplementary credits must be requested by the local soviets from the respective People's Commissariat.

ART. 88. In case of an insufficiency of local means for supplying definite local needs, the necessary subventions or loans from the State Treasury to local soviets are to be sanctioned by the All-Russian Central Executive Committee or the Soviet of People's Commissars.

The paragraphs of the constitution quoted above provide for (1) a division of public finance into state and local; (2) a budget system to regulate revenue funds and expenditures; and (3) the mode of subsidizing local budgets. How, then, did this budget system function in practice during the civil war period?

The division of public finance into state and local, which the Soviet government inherited from pre-revolutionary times, was preserved until approximately 1920; but even as early as 1919 certain items which were to be covered from

local revenues began to be transferred to state estimates, and by about the middle of 1920 most of the requirements nominally on local budgets were in reality supplied from the state budget. Only a number of insignificant items remained to be covered from local funds. As far as the main and most essential expenditures were concerned, local finance ceased to exist after the latter part or the end of 1920.

Let us first consider the state budget.

The state budgets for 1918 and 1919 were drawn up half-yearly for the periods from January 1 to June 30 and from July 1 to December 31. For 1920 and 1921 they were made out in Soviet paper currency; but the next budget, that for January to September, 1922, which was drawn up after the declaration of the New Economic Policy, was made out in conventional (arbitrarily determined) pre-war gold rubles.

The budgets of 1918–1921 contain estimates drawn up actually at the close of the periods for which they were made; these budgets were confirmed at the end, or even upon expiration, of their respective periods. This alone suffices to show that these budgets had none of that regulating influence which budgets usually have.

In those years, preliminary projects of budgets drawn up by the People's Commissariat of Finance also lacked practical importance. At first, in 1918, this was in consequence of the disorganization of government routine, unavoidable during the Revolution; later it was because of the great speed with which money kept depreciating and because of the "naturalization" of economic relations.

The depreciation of money, even apart from all other causes, hampered the technical operations of the budget. In the first place, it made it impossible to forecast the amount which the government could dispose of at a given date in the future; and thus disappeared one of the indispensable elements of exact planning of state expenditures—definiteness of income. In the second place, appropriations granted in the budget in rubles were in reality steadily diminishing in value. At that, they were diminishing not at an equal rate and not in proportion to the various subdivisions of



the budget but in varying degrees and at varying rates; for the rise in prices caused by the depreciation of money was also going on unequally as to different kinds of commodities. No matter how many times during the year the budget allocations were reconsidered and drawn up anew, they could never be put into accord with those normal requirements which the budget with its subdivisions was supposed to cover. The very fact of the reconsideration of budget appropriations meant an infringement of the principle of the fixity of limits put to the expenditures of the several institutions and of government branches. At the same time, such reconsideration, taking place as it did several times during the year—monthly, quarterly, or half-yearly—prevented regular planning in individual branches of state and local economy for any extensive period of time. Yet such reconsideration of appropriations during the year was unavoidable as long as the currency kept declining, for the amounts to be expended were expressed in fixed figures. Composing the budget in fixed values and not in the ones in which it was to be executed, that is, in the declining currency in which revenues were received and expenditures made, not only failed to counterbalance the effects of money depreciation but made them more complicated. To bring such a budget into accord with its execution, it would have to be written in the currency in which it was to be executed, i.e., in the falling currency, and that would not remedy the effects of such depreciation. The greater complexity, on the other hand, resulted from reconsidering budget appropriations and converting them into falling currency not on the basis of *de facto* prices even for a period already expired but on the basis of fictitious ones, always more or less remote from the true prices quoted in depreciating money.

Thus continuous depreciation was a great obstacle to the positive technical functioning of the budget. First, the resources of the state could not be expressed in definite figures; second, the fixity of limits to be prescribed to expenditures of various government departments disappeared, and so the departments' scope of activities could not be prescribed; third, the planning of government activities

could not be done for any considerable time ahead. All this hindered the regular satisfaction of the state's requirements and the balancing of those requirements with the real resources at the disposal of the government.

The disintegrating influence of money depreciation on the budget was *pari passu* worse as the rate of depreciation became more rapid. In the years 1918 to 1921 this depreciation went on with headlong, and ever increasing, speed.

To be sure, in those years the practice of supplementary, over-and-above-the-estimate, appropriations was very general; such supplementary appropriations sometimes exceeded the original ones and were made according to the current importance and urgency of each given purpose more than in accord with original plans.

Besides this direct influence of depreciating currency, the budget was also being undermined by the process of "naturalization" of economic relations.

This process, first of all, led to the complete omission from the budget of a number of economic operations conducted by government institutions and undertakings. As the fixed prices fell behind the general money depreciation in the free market, all economic and commercial usefulness of sales and purchases at fixed prices gradually vanished, and the transfer of goods came more and more to be merely compulsory transactions in kind. Thus, even previous to the formal establishment in 1920 of the gratuitous supplying of services and manufactured goods by the state, government institutions and undertakings began to refuse to keep any accounts as between themselves, whether expressed in money or otherwise.

To be sure, the budget laws, up to the end of the civil war, tended to keep the budget in existence as a record of the gross amounts involved in operations conducted by state institutions and departments. Although the first two half-yearly budgets of 1918 showed, with regard to state industries and trade, only the amounts of government subsidies granted over and above their own respective revenues and did not contain the gross totals of their receipts and

expenditures, yet the first half-yearly budget of 1919 made a decisive step toward recording in the budget all the receipts and expenditures of nationalized industry. Subsequently, budget rules published on May 24, 1919, which were to remain in force for the second half-yearly budget of 1919, contained a definite provision for recording all receipts and expenditures of state undertakings.

In practice, however, a considerable share of the transactions within the nationalized portion of the people's economy completely escaped any recording in money figures and so was never carried into the state budget.

This was only one of the breaches in the budget. Apart from this, during the civil war period, labor and team duties were widely exacted; and like the rest of the economic transactions carried out at fixed prices, they soon became gratuitous and ceased to be recorded in any budgets.

Besides suffering from this incompleteness in the records of the economic life of the country, the budget suffered from the splitting of all economic transactions in the country into two parts: compulsory transactions at fixed prices, and free transactions at free-market prices. Thus one part of the receipts and expenditures shown in the budget was expressed in fixed prices—these were the transactions of government institutions and undertakings. The other part, resting on purchasing conditions in the free market, was expressed in paper-currency amounts which were to be received or expended at free-market prices; such were the government employees' salaries paid in money. As the fixed prices kept falling behind those of the free market, and economic relations became more and more naturalized, the budget became practically nothing but a record of those expenditures of government organs which were made out of paper-currency issues.

The real meaning of the budgeting attempts of 1919–1920 consists merely in this recording. The yearly layout had therefore no significance. The essential part of the budget during these years was the allotment of money credits between definite institutions or government organs and territories and the sending out of subsidies to supplement rev-

enues which kept losing their value because of depreciation. A special inter-departmental commission was created and entrusted with the distribution of currency between departments; and the definite allotments were, to use the expression then current, "armored"; that is, they were not allowed to be turned to any other use.<sup>66</sup> In 1920 such "armored" accounts included 90 per cent of all currency items. This created serious difficulties. In the middle of 1920 this method of "armored" allotments was discarded and all the distributing of new currency issues was centralized in the People's Commissariat of Finance. (See ruling of the June 1920 session of the All-Russian Central Executive Committee.)

All these difficulties make it impossible to establish the real figures of the actual receipts and expenditures of the Soviet state from 1918 to 1921. The recorded figures, however, of the ratified projects and estimates were:

#### BUDGETS OF SOVIET STATE, 1918 TO 1922

Budget Periods	Expenditures (Million Paper Rubles)	Receipts (Million Paper Rubles)	Deficit (Million Paper Rubles)	Ratio of Deficit to Total Expenditures (Percentage)
January-June, 1918 ..	17,603	2,853	14,750	83.8
July-December, 1918.	29,103	12,727	16,376	56.3
All of 1918.....	46,706	15,580	31,126	66.6
January-June, 1919..	50,703	20,350	30,353	59.9
July-December, 1919.	164,699	28,609	136,090	82.6
All of 1919.....	215,402	48,959	166,443	77.3
1920 .....	1,215,159	159,604	1,055,555	86.9
1921 .....	26,076,816	4,139,900	21,936,916	84.1
January - September 1922 (tentative budget) (in million pre-war gold rubles)	1,707	982	725	42.5

A striking feature of this table is the great variation in the deficits from year to year. That such extreme variations

<sup>66</sup> In chapter three, p. 146, below, the term "armored" is defined as meaning: "definitely allocated to the various distributing agencies of the government." (EDITORS.)

actually existed is altogether improbable, and the real explanation is undoubtedly that the figures do not include the state's receipts and expenditures with anything like completeness, and that what they do include is not expressed in comparable values.

The same conclusion is reached when we convert the state receipts and expenditures as given above into pre-war gold rubles according to the Bureau of Labor Statistics index, and then compare them with the pre-war budget amounts of the old Russian government, as follows:

COMPARISON OF BUDGETS, 1918-1921, WITH PRE-WAR  
BUDGET, 1913

Years	Receipts (Million Gold Rubles)	Ratio to the 1913 Total (Percentage)	Expenditures (Million Gold Rubles)	Ratio to the 1913 Total (Percentage)
1913 .....	3,431.3		3,382.9	
1918 .....	199.7	5.8	594.6	17.6
1919 .....	63.1	1.8	277.6	8.2
1920 .....	19.4	0.6	147.8	4.4
1921 .....	55.5	1.6	350.0	10.3

Thus, in view of its disorganization and its limited scope, the budget loses all significance as a balance sheet of the state's receipts and expenditures.

As mentioned above, the budgets for 1918-1921 contained two classes of receipts and expenditures: (1) transfer receipts and expenditures showing transactions between state institutions and undertakings; (2) direct receipts from the people and expenditures made by government institutions as payments to the people, chiefly as wages to officers and laborers. If we compare the transfer receipts and expenditures we see that they lack the balance that should have existed between them.

S. A. Golovanov, who was closely concerned with budget work from 1917 on, in a publication dealing with the state budgets of Soviet Russia,<sup>67</sup> quotes the budgets of 1918-1920

<sup>67</sup> Article by S. A. Golovanov in Vol. II, *Na novykh putiakh* ("Upon New Trails"), publication of the Financial Section of STO, Moscow, 1923, p. 16.

in pre-war gold rubles, while at the same time dividing them into transfer and direct receipts and expenditures. The transfer amounts are calculated according to the index of fixed prices, while the direct receipts and expenditures are calculated on the index of the Bureau of Statistics of Labor. He presents the following table:

TRANSFER AND DIRECT ITEMS IN BUDGET 1918-1920

(Million pre-war rubles)

	1918	1919	1920
Transfer expenditures .....	511	402	1,677
Transfer receipts .....	93	362	982
	<hr/>	<hr/>	<hr/>
Deficit .....	418	40	695
Direct expenditures .....	250	239	126
Direct receipts .....	169	28	7
	<hr/>	<hr/>	<hr/>
Deficit .....	81	211	119
Paper issues .....	429	212	115

The divergence between transfer receipts and transfer expenditures in this table bears testimony to the fact that even when budgets were drawn up toward the close of their respective periods they failed to reflect the actual conditions and established no balance between receipts and expenditures.

Mr. Golovanov says:

The gist of the matter is that transfer receipts and expenditures should balance, i.e., expenses should equal receipts, for these amounts are essentially payments by the government to the government itself for commodities and services furnished by one department to another. As such, these receipts and expenditures have only an accounting significance and the receipts should contain all that the expenditures contain. If such a balance is lacking, this proves that at the time the budget was drawn up no correct stock was taken of the material commodities and services to be included in that budget; as a consequence, we are left wondering as to which of the two totals is closer to the truth, that of the receipts or that of the expenditures.<sup>68</sup>

<sup>68</sup> Article by S. A. Golovanov in Vol. II, *Na novykh putiakh* ("Upon New Trails"), publication of the Financial Section of STO, Moscow, 1923, p. 16.

As a result of money depreciation, naturalization of economic relations, and disorganization of the budget, the state economy of 1918–1920 splits into several main groups. The first includes money resources obtained chiefly through paper-money issues; the second, those through compulsory collections of agricultural produce and its distribution; the third, those through stocks formerly accumulated and the current production of the state industry; and the fourth, those through duties in kind borne by the people. The management of each of these groups was rather strictly concentrated in the hands of the central government. Local budgets and finances were abolished.

When it became quite clear that the budget drawn up in money units could no longer be universally inclusive and so could not longer have its former significance, the idea was conceived of a "budget-in-kind," which was to reflect the true movement of the economic transactions of the country. The commission which was created toward the end of 1920 to work out the scheme and the principles of such a budget never finished its labors; but it made a report to the Soviet of People's Commissars of January 26, 1921, in which the following bases of the new budget were established:

1. The general state budget must be a balanced net budget so arranged that the settlement of the mutual accounts between Soviet government organs may be reached automatically by means of periodical reports by the state and by the departments of the government without resort to any adjustments, in goods or money.

2. Keeping account of materials, both as to quantity and as to value, must be recognized as indispensable, without deciding in advance the question of the accounting unit to be adopted.

3. The following work must be begun without delay: (A) a budget scheme establishing, in so far as possible, the classification of transfers in three ways: (1) economic-administrative, (2) according to purpose, (3) and territorially; and (B) the determination of a unit of counting or valuation (common denominator) as a means of accounting which would best correspond to the labor-organization<sup>69</sup> of society.

<sup>69</sup> Marxian theory holds that labor is the sole cause and hence the only true measure of value. The plan here suggested is that commodities be valued for accounting purposes in terms of the labor units entering

These suggestions were never developed in anything like completeness. In the spring of 1921 the New Economic Policy turned the whole economy of Soviet Russia back to money-market relations. Unfinished projects and schemes for a material budget, or budget-in-kind, remain merely as interesting historical monuments of economic ideas prevalent during the civil war period.<sup>70</sup> Most interesting, theoretically, is the project for the introduction of a labor unit basis of valuation into state economics, as a method and a unit of appraisal.<sup>71</sup>

Soviet Russia is a complex state and its complex character was proclaimed within a few days of the October Revolution in a special declaration of rights of Russia's nationalities published on November 2, 1917 (old calendar).<sup>72</sup> The statements of this declaration were later developed into a new Declaration of the Rights of Laboring and Exploited People on January 31, 1918. According to the latter, "The Soviet Republic is established on the basis of a free alliance of free nations, as a federation of Soviet National Republics." The federative principles proclaimed in both declarations failed, however, to receive anything like a final development during the civil war period. The civil war itself was the chief obstacle. It sometimes tore away from the Soviet territory, and sometimes converted into theaters of war some of the large national territorial units which were to compose the federation. On the other hand, civil war required a strict centralization of the whole country's economic resources which at times were very scarce, and this could not but influence federative relations. What little

into their production, or, closely to approximate Marx's expression, "crystallized labor units." (EDITORS.)

<sup>70</sup> See *Social Revolution and Finance*, a collection of articles on the occasion of the Third Congress of the Communist International, published by the Commissariat of Finance (Moscow, 1921), p. 113.

<sup>71</sup> See *Money Circulation and Credit in Russia and Abroad*. Transactions of the Institute of Economic Investigations, Petrograd and Moscow, 1922, Vol. I, 1914-1921. It contains the project of a labor unit in the appraisal of values.

<sup>72</sup> Published in No. 2 of the *Collection of Government Acts*, 1917, Art. 18, and in No. 4 of the *Gazette of the Temporary Government of Workers and Peasants*, November 3, 1917.



autonomy of various national territories was possible under civil war conditions required no special organization, since all local administration was concentrated in the hands of local soviets and their executive committees.

The Constitution of the Russian Republic of July 10, 1918, proclaims, in precisely that sense, in its Article 11 that: "The soviets of districts whose customs and national composition differ from the neighboring ones may unite into autonomous regional unions at the head of which, as at the head of any other regional alliances that may be formed, will stand the regional conferences of soviets and their executive organs." Therefore there was during the civil war no special organization of public finance, apart from local finance, and the finance of autonomous regions was treated like all local finance. From the end of 1919 on, large national units already made up part of the Soviet country, such as the Ukraine, White Russia, etc., but even then the principles of federated organization could not be fully applied until the New Economic Policy re-established to a sufficient degree the money-market relations and produced a corresponding system of public finance.

#### B. THE LOCAL FINANCE

The Constitution of the Russian Republic adopted by the Fifth All-Russian Conference of Soviets at its session of July 10, 1918, decisively confirmed the existence of a system of local budgets and, consequently, of local economy and local finance (Articles 81 and 82 of the Constitution).

After the October Revolution and almost to the beginning of 1919, local finance in Soviet Russia functioned on the old—pre-revolutionary—basis. Although the local self-governments were replaced by new ones, these new local soviets lived, all through 1918, on budgets that had been drawn up in 1918 by the old, displaced officials. They continued to levy the zemstvo tax, the municipal real estate tax, the apartment tax, the per-pud tax on merchandise imported and exported by rail, and so forth. Besides, large arrearages of zemstvo taxes had accrued in the accounts of the old self-governments, and these, in 1918, constituted an

appreciable source of revenue for the gubernia, uезд, and volost soviets, in addition to the taxes regularly due for the year. Establishing new officials, however, caused new expenses, while money depreciation increased the nominal amounts of these expenses and thus the receipts became inadequate. Enjoying as they did rather unlimited authority locally, the soviets developed the extraordinary revolutionary taxation on a large scale, and in order to put this latter practice into some definite shape and order, the Soviet of People's Commissars published, on October 29, 1918, a special "Ruling Concerning the Single-Payment Extraordinary Revolutionary Taxes Established by Local Soviets."<sup>73</sup> It was a brief ruling—ten articles in all—more in the character of a proclamation, and it was intended to regulate the new local taxes until the publication of a special act which was to formulate in detail the financial status of the local soviets.<sup>74</sup>

This ruling set down the general bases—which had already become established in practice—of the new extraordinary taxes in the provinces. At the same time, however, it did not neglect the old sources of revenue. Extraordinary revolutionary taxes, according to this ruling, could only be levied upon people belonging to the bourgeois class. They were to be levied, and actually were levied, mostly in cash. "Simultaneously with the single-payment extraordinary tax," says Article 2 of this ruling, "the taxpayer, be he a person or a corporation, is to pay all the current dues and arrears on soviet taxes and duties, state as well as local, and the single-payment extraordinary tax levied by the state." Further (Art. 3): "The single-payment extraordinary tax cannot be levied on nationalized and municipalized undertakings or on consumers' co-operative societies, or those run by soviets or village communes." Article 4 says: "The single-payment extraordinary tax is assessed by the local soviets according to the general economic status and the income of

<sup>73</sup> Commonly known among writers on finance as a "capital levy." (Editors.)

<sup>74</sup> Published in No. 81 of *Collection of Government Acts*, 1918, Art. 846, and in No. 242 of *Izvestia*, November 5, 1918.

persons to be thus taxed; but it may not be based exclusively on the condition of those persons' current accounts at the People's Republican Bank." This latter provision tended to correct the practice of the local soviets, which were inclined to confiscate first of all private current accounts. The total of the tax levied in a given locality was to be limited, according to this ruling, to the sum needed for the necessary expenditures. The People's Commissariats of Finance and of the Interior reserved the right of diminishing the total of the tax levied in any locality and of changing the rules according to which it was levied, as well as its rates as applied to individuals. Local extraordinary taxation was most widely practiced in 1918. It was of a primitive character and seriously handicapped the orderly execution of regular state and local taxation in the whole country.

On December 3, 1918, was published a detailed law concerning revenues and expenditures of local soviets.<sup>75</sup> This law established a strict budget system for local finances and demanded that estimates be made of all expenditures. Its chief bearing, however, was in the definition of the local soviets' revenue. It put at their disposal quite a wide range of taxes, over and above the revenue to be received by them from their communal properties and undertakings.

The following taxes were given over to the gubernia soviets: (1) taxes on income obtained from the use of land; (2) taxes on factories, works, trade, and industrial undertakings; (3) taxes on tenanted dwellings in towns and uezd districts; (4) taxes on cattle; (5) a special tax on the owners of whatever undertakings happened to profit as a result of soviet government activities; (6) a surtax on the state income tax; (7) a surtax on the basic trade license tax.

The uezd soviets were granted, for the economic requirements of uezd districts, taxes analogous to those which were established for the gubernia soviets. The uezd soviets were allowed also a number of minor duties, such as on advertisements, on inns, and on peddlers (Art. 34).

<sup>75</sup> Published in No. 93 of *Collection of Government Acts*, 1918, Art. 931, and in No. 272 of *Izvestia*, December 12, 1918.

For the requirements of municipalities, the municipal soviets were granted the use of the following taxes: (1) that on property, (2) a surtax on the state income tax, and (3) a surtax on the basic trade license tax (Art. 35). In cases where these receipts were insufficient, the municipal soviets were given the additional right of levying taxes and duties as follows: (1) a tax on cattle; (2) a special apartment tax; (3) a tax on persons employing domestic help; (4) a tax on inns and restaurants; (5) a tax on greenhouses, nurseries, etc.; (6) a tax on properties which profit as a result of soviet government activities; (7) a tax on peddlers; (8) a tax on hackney coaches; (9) a tax on advertisements; (10) a tax on private horses and carriages; (11) a tax on teams used for transportation of goods; (12) a tax on the right to set up booths in city streets and squares for the purpose of selling agricultural produce, or any other wares, or on the right to sell domestic animals; (13) a tax for the sanitary inspection of meat brought in for sale; (14) a tax for the use of portions of sidewalk obstructed or occupied in building or remodeling houses; (15) a tax for the inspection and sanctioning of rebuilding and repairing plans for existing buildings; (16) a tax for inspection of new and reconstructed buildings; (17) a tax on auction sales conducted with the aid of government auctioneers; (18) a tax on the use of public scales and measuring apparatuses in trading places; (19) a tax on dogs; (20) a tax on public entertainment; (21) a tax on bicycles, automotive vehicles, yachts, and motorboats.

The volost soviets were granted by the law of December 3, 1918, the following taxes: (1) a tax on property; (2) a surtax on the basic trade license tax; (3) a tax on inns and restaurants; (4) a tax on the peddling trade.

As may be seen from these lists, revenues granted for the use of local soviets were very numerous. They were, however, limited as follows:

1. All nationalized and municipalized undertakings and properties were exempt from taxation.

2. Taxes could be levied only in money.

3. With the exception of the tax on income from the use of land, the amount to be levied was limited to a certain

percentage of the value of properties taxed; this value, in the case of real estate, was to be assessed at no more than the taxation or fire insurance assessments of the old municipal governments multiplied a certain number of times.

4. Analogous to pre-revolutionary law, the law of December 3 prescribed no limits for the taxation of land except that the taxes were to be levied in money.

As a matter of fact, during the period of civil war these regulations so affected the local finances that all local taxation practically ceased.

Besides the above-enumerated taxes the local soviets were permitted, in cases of insufficiency, to resort to the extraordinary revolutionary taxation described above. But this also had to be levied in currency, and it was only permitted with regard to persons belonging to the bourgeois class. As the expropriation of the bourgeoisie progressed, this category of taxable persons gradually became non-existent.

In cases of insufficiency of the tax revenues indicated in the law of December 3, 1918, the local soviets were granted the right of petitioning for subventions from the State Treasury (Arts. 77 and 78).

In view of the foregoing limitations of the local soviets' taxation rights, the regulations of December 3, 1918, rather soon lost all importance. The reasons were the following:

The system of local finance prescribed by that law could not be carried out in practice before late in the autumn of 1919, owing to the difficulty of organizing assessment and collection.

Meanwhile, at the beginning of the summer of 1919, the nationalization of trade and industry was accomplished. This put an end to the fiscal productivity of any taxation of trade and industry. About the same time compulsory expropriation of all surplus of agricultural produce from peasants for the government stores was definitely established, and as a result peasant farming became exhausted as a source of tax revenue. Revenue from public properties and undertakings disappeared even before that, for it came to be considered as a duty of the state to supply the most elementary

needs of the population, and whatever payments were exacted for public undertakings were never in the least commensurate with the depreciation of the ruble; the ever accelerating rate of this depreciation of the ruble soon caused these payments to be practically nonexistent. The central government subsidies thus came to be the chief source of financing local budgets. But it was very difficult for local government to subsist on this help. At a time when currency steadily and rapidly depreciated, it was almost impossible to supply all local needs from such subsidies, for the money to meet the necessary expenditures could hardly be estimated in advance.

This situation forced the central and especially the local organs of the Soviet government to begin transferring all local estimating of expenses and receipts from the local to the common state budget. This was done increasingly all during 1919 and 1920. In the summer of 1920 all the more important expenditures were taken off the local budgets and the scope of these budgets became practically nil.<sup>76</sup>

In the spring of 1919 this narrowing of local budgets was theoretically sanctioned by the First All-Russian Conference of Financial Workers. This conference took place May 21–25, 1919. It condemned, in principle, the system of local financing and consequently the methods prescribed for it by the law of December 3, 1918. The conference recognized the necessity of merging local finances with the common finances of the state.

“In the Russian Republic there should be one single state tax.” “All revenues, state as well as local, must be collected into one State Treasury; likewise, all expenses for state and local purposes will be made from the same single Treasury.” “The means needed for narrowly local purposes may be assigned from the common state budget.” Thus reads the

<sup>76</sup> There exists no summary of local budgets for all Soviet Russia for the period 1918–1921. The author, however, had in 1919 and 1920 the opportunity practically to manage the finances of one of the typical gubernia districts—that of Smolensk. He was able at that time to acquaint himself, also, with a great number of other gubernia budgets. The experience of the Smolenskaia gubernia and the others very graphically illustrates the process of exhaustion of local resources described above.

resolution of the conference on questions of local and common state budgets.

In accordance with this the following resolution was adopted by the same conference concerning state and local revenues:

The decree of the Soviet of People's Commissars of December 3, 1918, concerning revenues and expenditures of local soviets must be abrogated. . . . The People's Commissariat of Finance will raise, at the next All-Russian Conference of Soviets, the question of reconsidering the respective articles of the Constitution in accord with the projected merging of local and common state finances.

One year later, at the plenary meeting of the Eleventh Session of the All-Russian Central Executive Committee, on July 18, 1920, a resolution concerning financial policies was passed, containing the following articles:

5. The division of the budget into state and local is to be abolished and in the future local expenses and revenues are to be included in the common state budget.

6. The gubernia executive committees are to be granted, upon special petition, extra funds for unforeseen expenses which could not have been included in their estimates; these expenses are in each case to be calculated at a certain percentage of the estimates of expenditures of the particular executive committee concerned. . . .

8. The People's Commissar of Finance is to be instructed to work out a system of money taxes classed by definite purposes and collected for certain local needs, but included in and expended out of the common budget.

Thus, during the period of civil war, 1918 to 1921, the development of local finances went through two stages: the first, approximately up to the middle of 1919, and the second, from that time up to the introduction of the New Economic Policy, which, for this particular matter, meant almost the end of 1921.

Underlying the New Economic Policy, which was begun in the spring of 1921, was a stable currency unit, and this made possible the re-establishment of local finances.

## CHAPTER THREE

### THE NEW ECONOMIC POLICY, 1921-1928

*By I. Reingold*

#### I. FROM DISTRIBUTIVE QUOTA AND MONOPOLIES TO TAXATION

When the year 1921 came, the productive forces of the country were wrung dry. The sweeping expropriations through quotas and confiscations from the bourgeoisie in city and village, including even petty representatives of that class, had proved to be an unreasonable economic policy for the solution of the problems of a proletarian state. This policy had been made unavoidable by civil war and foreign intervention, and it had served as a defense for the state; but it was destined to disappear as soon as the Soviet state had proved to its enemies its right to independent existence. Political expediency had thus temporarily displaced economic usefulness. The chief economic problem of the civil war period was to organize consumption, not production. The entire industrial output was taken possession of by the state without compensation, chiefly for the needs of the Red Army, and this made a normal replenishing of stocks impossible. In the villages the distributive quota<sup>1</sup> drained to the bottom all the resources of the peasantry, except a starvation ration for the family and a minimum for sowing the fields. The peasant was thus deprived of every incentive to enlarge his cultivated area and improve his methods. In addition there was the enormous volume of paper-currency issues which represented, during the years of military communism, a burden of nearly one billion gold rubles falling

<sup>1</sup> The Russian term here translated "distributive quota" is a technical term of the Soviets and means, in general, the amounts (quotas) of food taken from peasant farmers for common use, to be distributed to the consumers as the government sees fit. (Editors.)



chiefly on the peasantry.<sup>2</sup> To raise agriculture and industry from the condition to which they had sunk in 1921 became a question of life and death to the Soviet state.

The New Economic Policy (NEP), proclaimed in the spring of 1921, turned decisively toward a stimulation of all production, the freeing of the economic initiative of the peasant, and a radical reconsideration of farming and industrial methods. It supplied a new impulse to industry to increase production and to the peasant to expand his area under cultivation. The fundamental decree which opened the era of NEP was published on March 21, 1921. It proclaimed the substitution of a tax in kind for the distributive quota.

The first article of this decree reads:

In order to guarantee regular and undisturbed farming on the basis of a freer disposal of produce by the farmer, to strengthen peasant farming and increase its efficiency, and to fix more exactly the obligations of agricultural workers toward the state, the distributive quota, as a means of accumulating supplies by the state, is hereby replaced by a tax in kind.

Thus, the change which was to play a decisive part in the history of Soviet Russia and to cause a revision of the entire tactics of the Russian Revolution began by abolishing the distributive quota and lightening the peasant's burden. The political considerations of the state as well as its foremost economic interests demanded this. In the course of Russian history there had come to be a serious lack of balance between the development of heavy industry,<sup>3</sup> which was chiefly nourished by foreign capital and was conducted in accord-

<sup>2</sup> See the preceding author on this question, pp. 83 ff., above. (TRANSLATOR.)

<sup>3</sup> In Soviet terminology "industry" means every economic activity that is not farming or trade; and includes manufactures, mining, and most public utilities. "Heavy" industry is a classification which has no parallel in American usage. As used in these articles it seems to include "heavy" manufactured goods, and industries using large machines. An official publication of the Anglo-Russian Parliamentary Committee explains that "heavy industry" (Group A) includes plants manufacturing principally means of production, while "light industry" (Group B) covers those producing chiefly articles of consumption. (EDITORS.)

ance with the latest methods applied in Europe, and the backward, primitive methods and equipment of agriculture. This low level of agriculture and, as a result, the low buying capacity of the village population confined mechanical industry to rather narrow limits, converting it into a sort of pensioner of the State Treasury supported largely by government orders. During the last decade before the war, the per capita consumption of manufactured articles within the country stood at a pitifully low level as compared with other nations, and yet some Russian industries were compelled to seek foreign markets in order to dispose of their wares. As soon as the Soviet government began work on the regeneration of the country's economy, it faced the unavoidable necessity of raising agriculture to a higher level, and this it was impossible to do without abolishing the distributive quota. The peasant was presently allowed to sell all his surplus in the open market upon payment of the tax in kind, whereas under the system of military communism every attempt at such sales had been relentlessly persecuted. In order, however, that the peasant might really have a surplus to sell, the decree concerning the new tax in kind reduced the rate of this tax as compared with the distributive quota, confining its demands only to the supply of the most urgent needs of the army, the city workers, and the non-agricultural population. At the same time there was inaugurated a plan for a systematic reduction of the tax burden for the future, in proportion as the re-establishment of industry and transportation should enable the Soviet government to obtain agricultural produce in exchange for manufactured goods. The change gave the peasants an opportunity to make definite plans for their farming, for the extent of the tax levied on them was now fixed and they could proceed on the assurance that their produce, beyond this fixed limit, would not be expropriated and that they would no longer be subject to requisitions and confiscations by various agents of the government, each of whom was wont to use his own judgment as to the extent of the "surplus" to be taken away. These factors served to increase the peasant's interest in more extensive cultivation so that he might have more to sell

in the market or to exchange for whatever goods he wanted. The distributive quota had not only weakened peasant agriculture as compared with its 1913 standards but had also in large measure disrupted the peasants' connections with the city and the market in general. Before the war the peasants had purchased manufactured goods annually to an average of something over 21 rubles per capita; in 1920, this average sank to about 3.50 rubles; but in the very first year of the NEP, 1921-1922, it rose to 5 rubles per capita. Peasant farming, after having served almost exclusively local consumption, began to assume something of a commercial nature and to re-establish its connection with the market, and to a certain extent an analogous process took place in manufactures.

During the years of military communism every branch of industry worked, so to speak, for the commonwealth pot (or pool). Each industrial unit was assigned a quota to fill and was not required to concern itself with the problem of replenishing the stores it had spent. The state was expected to supply all the requirements of an industrial plant by shifting material from one branch of its economy to another and recording such transfers in its accounting. The NEP changed this order of things radically. Industry was shifted to a so-called economic or self-supporting basis, in accordance with the practice of the most progressive capitalist countries, through the organization of trusts and syndicates for the better control of groups of analogous undertakings. Now, all oversight of production, of the buying and storage of raw and partly manufactured materials, of the provision of a supply of the necessary working capital, was taken out of the hands of the state and left to the trusts.<sup>4</sup> The trusts were allowed to sell their products in the open market and to purchase their own materials. Railroads, too, were to shift gradually to a scheme under which they themselves paid for the coal, oil, and metals furnished them by the re-

<sup>4</sup> While the Soviets use the term "trusts" much as that term is used in America, there is behind it the thought that the management is "entrusted" with the conduct of the enterprise by the government and for the public, and a breach of that trust is promptly punished. (EDITORS.)

spective trusts. As transportation consumes one-half, or even more, of the products of the heavy industries (fuel and iron), any failure on the part of the railroads to pay for these materials must of necessity paralyze the chief economic activities of the country.

The state renounced its obligation to supply the civil population with food and clothing, and the whole system of natural economy which had been established under the régime of military communism was disappearing rapidly. The country was reverting to a money economy.

The government frankly returned to the ordinary pre-war accounting and business methods, a change which of necessity brought with it an alteration in the attitude toward money and its significance.

While previously the policy was to eliminate money in the shortest possible time, regarding it as one of the chief obstacles to socialism, it now became evident that without money as an instrument of exchange economic progress was impossible. It had been believed that money circulation was near its inevitable end, and the government, acting on this hasty conclusion, had been led to make the maximum possible use of paper issues while this was feasible, so as to drain the market of as many goods as possible. The new financial policy, which was a part of the new economic policy, created the necessity, on the contrary, of strengthening the currency and completely stabilizing it as quickly as possible. Paper issues had to be limited, money taxation re-established, a budget created on the basis of a money economy, and close restraint placed upon expenditures. The creation of a powerful banking system and other credit institutions also became imperative.

The first step was to stimulate the demand for money and hence raise its value by substituting taxation for requisition. Taxation, as we have seen, was all but totally abandoned under the policy of military communism, and such money taxes as still survived had become practically meaningless through the collapse of the ruble brought about by unlimited emission. In fact, only one month before the promulgation of the New Economic Policy, the All-Russian

Central Executive Committee<sup>5</sup> had drafted and published a circular ending the paying of all money taxes whether state or local.

The NEP meant a complete reversal of this. Money taxation, as a *sine qua non* for the re-establishment of the income of the state, became a vital necessity. It would bring back to the Treasury at least a portion of the stupendous quantities of paper which had been issued and thus make at least conceivable a gradual contraction in its amount and some enhancement of its value. The reappearance of trade, as the first result of the NEP, was to produce private income—the initial basis of taxation—and a tax on this trade was to be the first step toward meeting the acute needs of the State Treasury. The initial step was a trade license tax, necessarily in very primitive form, because of the very low ebb to which trade had fallen by that time.

The re-establishment of taxation encountered a number of organization difficulties, such as the almost complete absence of government taxation machinery, the loss of taxation experts, the disappearance of tax discipline, etc., and raised the question as to whether direct or indirect taxation was more advisable. In the days when the Communist Party had been without power and had carried on its agitation against the monarchy, one of its chief demands had been for the decrease, and even complete abolition, of indirect taxation, as being the least equitable socially of all forms of taxation. Having now come to power, the party faced the necessity of deciding whether or not to repudiate its former stand. In deciding this, however, the fundamental changes brought about by the October Revolution had to be taken into account. The complete expropriation of the bourgeoisie, the socialization of land, the nationalization of banks, the cancellation of foreign and domestic debts, and a number of other social and economic measures affecting both the city and the village people had resulted in the annihilation of

<sup>5</sup> Corresponding to a legislative parliament or congress. The executive arm, elected by the "committee," is known as the Soviet of People's Commissars and is composed of ten commissars (ministers), each in charge of a department of government. (EDITORS.)

large fortunes and the transfer of the bulk of property and capital formerly in private hands to the Soviet state. In cities and villages alike, a considerable degree of equalization in the material status of the people had taken place. These changes limited the possibility of appreciable receipts from such taxes as those on income and property, which are among the most important budget resources in capitalist countries, while at the same time many of the grounds of objection to indirect taxes had disappeared with the change in social conditions. In addition, indirect taxes possessed the advantage of greater simplicity of collection. Thus the situation favored the introduction of indirect taxes as a means for supplying the urgent needs of the state and led to the setting up of excises and customs duties, together with direct taxes.

The basic excises on wines, tobacco and manufactures of tobacco, and matches, alcohol, salt, petroleum products, beer, cigarettes, sugar, tea, coffee, yeast, and candles were established in the course of 1922; and the shortcomings of indirect taxation as such were corrected through a higher rate on those products the consumption of which denotes a certain higher level of material welfare. At the same time, two new direct taxes were introduced: a general civil tax,<sup>6</sup> and a tax in commutation of the labor and team duties.

<sup>6</sup> "Civil tax." The authors give no description. We find the following:

*Russian Information and Review*, Vol. II, October 7, 1922—June 30, 1923, p. 116 (issue of November 25, 1922), mentions "civil tax levied last year in aid of famine victims" . . . "will be applied again this year, but will be used for reconstructing agriculture. Expected to produce 5,000,000,000 rubles (1922)."

*Ibid.*, Vol. III, July 7, 1923—December 29, 1923, p. 5 (issue of July 7, 1923), mentions "civil tax (a graduated poll tax for famine relief)."

*Ibid.*, p. 54 (issue of July 28, 1923), mentions simplification in taxation—a unification in towns, similar to the Single Agricultural Tax—i.e., "a single-property tax taking the place of the existing cartage and labor dues, civil tax, and income and property tax."

The yield of the civil tax for famine relief, etc., is thus reported:

Period	Yield in
Oct. 1—Sept. 30	Gold Rubles
1921—1922 .....	23,100,000
1924—1925 .....	18,000,000

(EDITORS.)

Taxation was also extended by the introduction of a stamp duty covering transactions with conversion of values.

A total of twenty-five different taxes, exclusive of the tax in kind (*prodnalog*) was introduced in 1922; of these, five were direct, thirteen were indirect, and seven were various duties. Thus toward the end of 1922 the new tax scheme was complete in its preliminary shape. The basic taxes were all established during this period, and the ensuing years added only a very few, which may be regarded as merely extending the system of taxation (a rent tax and several new excises).

Alongside this rapid reconstruction of state taxation, local taxation also progressed. During the period of military communism local budgets were merged with that of the state. In 1922 they were again separated and charged with a number of expenditures which had unnecessarily burdened the common state budget. There was serious opposition to this, for the local government organs, as well as some of the Commissariats, feared that the needs to be supplied from local budgets would remain unsatisfied for lack of means. The events did not justify these fears, for, though charged with expenditures, the local soviets were also granted the use of several general sources of income and the right to introduce local taxes, one of the most considerable of which was a money tax on each household. In addition, local budgets received subventions from the state.

This feverish reconstruction of taxation did not, however, give any appreciable results immediately, in spite of the fact that receipts progressed rapidly. In January 1922, i.e., about one year after the proclamation of the NEP, tax receipts in money yielded less than half a million gold rubles; by September the monthly yield had risen to 6.8 million. Yet for the whole year of 1922 the total money receipts were somewhat less than 25 million gold rubles. These receipts, state and local, for nine months of 1922 represented less than 3 per cent of the total revenue. An equally negligible part was played by the revenue from state undertakings and communal property. Although all of these activities during 1922 were nominally shifted to a self-supporting basis under which they were to pay their own way,

yet the returns which they got, when recalculated in stable gold-ruble units, were so meager that they were forced to carry on with a deficit and were able to continue only by consuming their capital.

We may take the railways as an illustration. New passenger rates were established, based on the pre-war rates; freight rates were even increased as against pre-war rates. But when these rates, which were stated in pre-war gold, were converted into Soviet currency, the calculation was based on an index of prices which was at once outstripped by continually rising commodity prices, and by the middle of April 1922 equaled only one-seventh of the then current index.<sup>7</sup> By October of the same year, though there had been some improvement, railroad tariffs were still only 40 per cent of the pre-war rates. Somewhat similar conditions existed in regard to other government enterprises, and the state's receipts from its undertakings and properties represented less than 10 per cent of the total budget income.

Thus, of the total budget receipts for 1922 (January to September), less than 15 per cent was in the form of money, and the balance of more than 85 per cent was made up of collections in kind and of new paper currency issued to cover deficit.

The shift from natural economy to money currency was taking much longer than expected; in fact, it required about three years. During 1922 industry [mining and manufacturing—EDITORS] still continued to supply a considerable part of the materials ordered by the government for transportation and war department needs, if not actually free of charge, at least at prices much below cost. The transfer to market conditions took place gradually. At first the plan was to sell, on the market, only a very small portion of the output, leaving the rest "armored,"<sup>8</sup> that is, definitely allocated to the various distributing agencies of the government; and these were slow in giving up their exchange-in-kind

<sup>7</sup> Currency reform was decreed in July 1922, but took some time to go into effect. See p. 148, below. (EDITORS.)

<sup>8</sup> See chapter two, p. 126, above.



methods, and continued to practice them alongside of commercial methods expressed in currency payments. Under the automatic pressure of the market these exchanges in kind gradually disappeared; but each step met with stubborn resistance from the supporters of the "natural" economic theory. The "natural" methods and ideas of military communism had become so firmly rooted that it was not until 1924 that it became possible to replace the agricultural tax in kind by a money tax.

The same stubborn adherence to natural economy appeared when the government decreed that state industries, like other enterprises, must pay taxes. The industrial leaders objected on the plea that as the industries belonged to the state taxing them was absurd because it merely shifted state money from one pocket to another. They maintained a theory that a state-owned industry constituted a sort of "state within the state" and that its budget was a thing apart from the general state budget.

State industries were in an unhappy condition. There was serious shortage of working capital and a huge excess of payroll obligations, and the arrears which had accumulated were so staggering as to become a serious obstacle to financial soundness. Under these conditions the financial agencies of the state began a struggle against this *imperium in imperio* policy of state industries—a struggle which continued through several years and has in fact not yet wholly disappeared.

One good result of this struggle has been that both the industries and the state itself have been forced into a stricter system of accounting in their mutual relations. Beginning with the second half of 1922, measures were taken to insure better accounting. Prices were fixed for products of the coal and later for the petroleum and the metal industries, and deliveries at these prices were to be made to specified state institutions, among them the army and the transportation lines. The prices were somewhat lower than those at which industry delivered its products to private consumers or to government or co-operative undertakings not included on the favored list. On the whole, however, they were almost

equal to cost. This act put all the economic relations within the state-owned domain on the basis of money payments, a change which together with the new though hastily constituted taxation scheme provided a real foundation for the new economic system.

The chief prerequisite for success—stability of currency—was, however, still lacking. Although for a few months during 1922 a relative stability existed, the issue of some scores of billions of rubles soon destroyed it again. In nine months of 1922 about 90 billions were issued to cover the budget deficit, the gold par value of this total issue being only about 265 million rubles. The value of the new issues declined month by month, and the rapid depreciation led to a decrease [measured in gold—EDITORS] in all state revenues and taxes. Industry found itself again unable to keep even approximately exact accounts: workers, who were no longer paid in kind but received wages at fixed rates, lost large portions of their earnings; peasants who sold produce in the market saw the money they received lose value even by the time they reached home. The whole country suffered, and was ready to grasp any semblance of a stable unit of value. Various projects were advanced, such as one for an artificial unit, or commodity ruble, based on a price index. For a time the People's Commissariat of Finance set up an ideal gold ruble and published rates of conversion based on Soviet rubles, a periodically changing co-efficient.<sup>9</sup> The return of the Soviet Union into world trade, which had begun by that time, increased the necessity for stability.

The Commissariat of Finance was fully alive to the situation and worked out a program, as part of the general economic reconstruction, the object of which was to provide measures preliminary to a full currency reform, which reform was to be, as it were, the climax of the whole scheme for strengthening Soviet finances. This program, as reported by the Commissar of Finance, Sokolnikov, was ratified by

<sup>9</sup> "Ratio." We have left the term co-efficient in the translation because the Russian government is run largely by the guidance of statistical co-efficients established by the Statistical Commissar, one of the ten Ministries. (EDITORS.)

the Eleventh Congress of the Communist Party<sup>10</sup> and included the following articles:

. . . . expansion of the market, both as to products of the heavy industries<sup>11</sup> and as to goods offered by peasants and petty artisans;

. . . . increase in commodity exchanges, first, through developing domestic and foreign trade, state as well as co-operative and private; second, through curtailment and then elimination of the budget deficit, the balancing of the budget by cutting down state expenditures and increasing state revenues in money and in kind.

. . . . an unsparing curtailment of government staffs; reduction of the number of government offices, central and local; the transfer of a number of expenditures to local budgets; the exclusion from the state budget of all expenditures not connected with the immediate purpose of maintaining the existence of the proletarian State.

. . . . curtailment, and then discontinuance, of paper-money issues.

The execution of this program met with many difficulties, but on the whole, as already mentioned, it was pursued unflinchingly.

The first decisive step was a resolution adopted on July 27, 1922, concerning the issue by the State Bank of its own gold notes, backed, to the extent of 25 per cent, by gold and foreign currencies and for the remaining 75 per cent by short-term obligations and readily convertible commercial paper. These banknotes were called *chervonets* (singular) or *chervontsy* (plural) [originally meaning a gold coin—TRANSLATOR]. The chervonets was based on gold, but there was to be no actual gold currency, for it was assumed that a return to gold coinage would be both impossible and untimely, just as it has proved to be even in some of the most prosperous capitalist countries. The new banknote represented a certain weight in gold, one zolotnik and 78.24 *dolas*; and its ratio to the American dollar and the English pound sterling was definitely fixed and was kept constant except for small fluctuations. This meant that the Soviet exporter, having secured a foreign credit in dollars or in

<sup>10</sup> As in the United States, parties are not recognized in the constitution; but the Communist Party stands alone and is all powerful. (EDITORS.)

<sup>11</sup> See note 3, above, p. 139. (EDITORS.)

pounds sterling, received in exchange for it at home a corresponding amount in chervontsy calculated on a fixed par basis, which was about 1 chervonets to \$5.00.

The State Bank found it possible to carry out similar operations in the domestic market as well. It received chervontsy in exchange for foreign currency at par, its policy being to withdraw excess chervontsy from the market by exchanging them for dollars and pounds. By these means the State Bank was to put the chervonets on a par with the foremost currencies of the world.<sup>12</sup>

In order to be able to adhere to this policy, a considerable gold fund was of course required, though in much smaller amount than would have been necessary under a system of redemption in gold with a free circulation of gold coin.

After issuing chervontsy, the Soviet state temporarily adopted a double standard or parallel currencies, one fixed and stable (the chervontsy), the other daily depreciating (Soviet rubles). The ratio between them was approximately the same as that between the gold actually in circulation within the country in private hands and its equivalent in paper notes. Naturally, therefore, as the Soviet ruble depreciated, the rate of exchange of the chervonets in Soviet rubles rose almost daily, the State Bank making daily announcement of the price of one in terms of the other. The chervonets was a rather large unit, designed, first of all, for large domestic or foreign transactions and issued strictly in accordance with the actual expansion of the market, any possibility of using its emission for covering budget deficits being carefully excluded. Small and medium-sized transactions were, as before, to be served by the Soviet ruble currency until such time as the latter could be replaced by a fixed and stable currency based on the chervonets. This

<sup>12</sup> The question whether the chervonets ruble is, or has been, at par with dollars or sterling is the subject of much discussion. The limited number and the peculiar character of Russian credits abroad makes the usual method of comparison quite inadequate. When our authors reduce chervonets rubles to pre-war rubles they mean no more than we do when we convert present prices into pre-war prices. (EDITORS.)

final step, the replacing of the Soviet ruble, was the main purpose of the reform introduced in 1924.

Three conditions were requisite for the success of this reform: (1) a further improvement in the agricultural tax, which was still partially being paid in produce, and its final complete replacement by a money tax; (2) a considerable lessening of the budget deficit; and (3) a favorable trade balance.

Despite all its advantages as compared to the distributive quota, the agricultural tax suffered from quite a number of serious defects, of which the chief was the fact that it was paid in kind. In this respect it was similar to the distributive quota and hindered the efforts which were being made to put peasant agriculture on a money basis.

The produce tax took from the peasants goods to an aggregate value of 300 million gold rubles. If they paid this tax in money, they would be obliged to bring to market and sell an equivalent quantity of produce and wares; and the commercial activity of peasant farming would be increased.

The result would be a greater demand for Soviet rubles; their circulation would increase and their depreciation would be retarded; whereas, under the existing system, with the government collecting the produce tax in kind and issuing billions of Soviet rubles monthly in order to meet its cash requirements, the state was, as it were, boycotting its own currency.

The produce tax had another serious defect in that it was levied in definitely prescribed kinds of agricultural and animal products, chiefly in grain; and peasant enterprise was thus checked by limitations which made entire branches of farming, such as poultry raising and vegetable gardening, useless for the payment of taxes.

Nor did payment in kind insure the government against loss by depreciation. When prices of grain fell, as was the case in the autumn of 1922, the yield of the produce tax fell with them, and the state suffered a serious loss.

When we add to these defects the fact that the expense of collection was very great, sometimes as much as 50 per cent of the yield, and that the produce collected, usually in

a short period of a few weeks or months, lay idle (most of it) for all the balance of the year without any possibility of yielding any return in interest, we get an accumulation of defects which made a change imperative.

All these shortcomings had become obvious, but traditions of the recent past hindered the introduction of the reform which was ripe and was being urged by the Commissariat of Finance. There was some apprehension that the commercial experience of the peasant was still too little developed and that, there being no large foreign export of agricultural produce, a serious collapse of prices might ensue if great quantities were to be offered in the home market. It was this fear that caused the final measures taken to be in the nature of a compromise. One such measure was the First Grain Loan. Its bonds were written in so-called "grain currency" and their prices fluctuated with the prices of grain. It was a short-term loan, only eight months, and its total amount was 10 million puds of grain, each bond at maturity entitling the holder to one pud of rye. The purchase price per bond was uniform throughout the country, in Soviet rubles, and was 5 per cent lower than the market price of the grain. A peculiarity of the loan was that it was guaranteed. It was issued in the summer of 1922 and was legal tender on account of the produce-tax payments in the autumn of that year. It was believed that the scheme would induce the peasantry to buy the bonds and thus help alter the payment-in-kind character of the produce tax, besides being helpful in accustoming the population, especially the peasantry, to buying Soviet government securities. The small scope of this credit operation was due to the novelty of the enterprise and the necessity of putting out feelers to ascertain the extent of the market and the peasantry's attitude toward the Soviet economic policy.

The peasants appreciated the special advantages offered them by the grain loan. By investing their money in these bonds they insured themselves against the depreciation of the ruble and were spared the task of hauling the grain to the government collecting stations.

The city population, on the other hand, fell into the prac-

tice of using the bonds as a means for storing their grain, or bread. At a comparatively low price they could get the right to future deliveries without the necessity of actually keeping the supply at home, for the bonds were payable not only in rye but also in wheat and even in flour. To dispel what remained of popular distrust with regard to the loan, a separate food fund for its liquidation was provided, and over and above this guaranty a gold fund in the amount of 10 million rubles was set aside from the gold reserve of the State Treasury.

Despite some technical defects and the unavoidable costliness of this operation, its success was considerable. Bonds amounting to 6.3 million puds were turned in to pay the produce tax, and bonds for some 2 million puds were presented for payment at maturity. The remaining 1.7 million puds were distributed among various government departments to apply on salaries and wages.

The success of the first grain loan encouraged its repetition in 1923 on a larger scale. This operation, too, was of a dual nature; on the one hand it helped to change the payment-in-kind character of the produce tax, on the other, to strengthen state credit.

Fundamentally, the second grain loan was like the first, except for the following modifications: its total grew to 100 million puds; the bonds were to mature successively from November 1, 1923, to March 1, 1924; a uniform fixed price for the entire country was replaced by varying prices corresponding to the grain prices on the day of sale of the bonds in various regions, the whole country being divided into three zones for that purpose. Zoning was necessary because of the absence of a single general grain market and the great fluctuations of grain prices in different regions. This loan was really not a unit, but three distinct loans, one for each zone. Like its predecessor it was distributed successfully, and a considerable portion of it returned to the government in payment of the new agricultural tax which in May 1923 replaced the produce tax paid in kind. The agricultural tax thus advanced one more step toward becoming a money tax. It was based on the theory that some regions of Russia

would pay in money (it was expected that about two-fifths of the whole tax would thus come in) and others in kind; but in all districts it was ultimately the peasant himself who was to choose whether to pay in kind or in money at specific rates of conversion. The choice of various districts was determined by the nature of their agriculture. In the northern and to some extent in the central industrial gubernias, grain cultivation is unprofitable. The tax in kind obliged the peasants to sow bread grains, though it would have been more advantageous under the local conditions to raise other commercial crops and buy bread from grain-producing regions. The latter were free to pay the tax in kind, not because the state preferred it (for, with the cutting of the number of persons on government payrolls down to 2.5 million, about a hundred million puds of grain would be sufficient), but because the state followed the wishes of a peasantry still lacking sufficient currency.

This agricultural tax was also to put an end to the multiplicity of taxes. Prior to that time the following taxes were levied in the villages: the labor and team tax; the general civil tax;<sup>18</sup> a tax per farm, payable in money; a long series of taxes and duties arbitrarily introduced to meet the needs of the volost administrations, the total of which according to some calculations amounted to 70 million gold rubles. Not one but many tax collectors knocked at the door of the peasant's home; and the chief tax of all, the produce tax, called for the delivery of eighteen different kinds of products.

The single agricultural tax unified or replaced nearly all of these taxes formerly levied in the villages, allocating a definite share of the receipts for local needs. Four payment dates were fixed, a plan which not only simplified and regularized the collection from the peasant's point of view but was also of advantage to the state, for in accepting two-fifths of the tax in currency there was considerable risk of depreciation because of the possible decline of currency values, and partial payments enabled the Treasury to use up its receipts promptly or to transfer them quickly from one

<sup>18</sup> See note 6, above. (EDITORS.)



gubernia to another as needed—a process which would of course be much more difficult with actual loads of grain and other produce and would bring risk of loss through wastage or theft, which would be made easy because of difficulties of accounting, etc. The amount of this tax was fixed on the basis of an estimate that the yield would be equivalent to 400 million gold rubles. Compared to the total of the direct tax formerly levied on the villages and now replaced, this represented a reduction of nearly 100 million rubles.

This system of taxation, in its newly modified aspect, was still too complicated and too unintelligible to the peasant; and in this lay the weakness of the reform. Owing to the absence of a cadastre<sup>14</sup> and the extreme difficulty and great expense of its introduction among the 20 million peasant farms scattered over a vast territory, the tax was assessed according to purely external indices. One desiatin of ploughed or sowed land, varying with local conditions, was taken as a taxable unit; but there were also collateral measures of taxation, such as meadows, cattle, etc., which were converted, at specially fixed rates, into equivalent units of arable land.

The number of consumers in a family was also taken into account, as well as the number of cattle and the condition of the crop. The various indices were combined and developed in complicated tables, which fixed the different taxes in accordance with the various combinations of the several factors. The system harked back to the recent period of "natural economy," and it suffered from extreme unwieldiness. The primitive nature of the indices (quantity of land and cattle) led to great inequities between individuals, for a certain quantity of land does not necessarily indicate prosperity. Owing to the nationalization of land and a considerable degree of equalization of its distribution for use, the quantity of land held by an individual was no longer a reliable index.<sup>15</sup>

<sup>14</sup> A survey of lands, their productivity and value. (EDITORS.)

<sup>15</sup> It is interesting to recall that a very similar system of assessment for taxation prevailed in some of the English colonies in America in the early days. Thus, in Vermont, different items of property were "set in

Notwithstanding these defects, however, the agricultural tax marked real progress, for it opened new fields for the use of money. Its exceptionally complicated structure, which could hardly be equaled by any other scheme in the whole world's taxation practice, is due largely to the tendency of the Soviet government to use the tax not merely as a source of revenue—a financial measure—but also as a social regulator to prevent the accumulation of wealth in the upper strata of the peasantry. This motive plays the most conspicuous part in all later legislation concerning agricultural taxation. The replacement of the produce tax by the single agricultural tax wiped out one of the gravest obstacles to a currency reform and hastened that desired end.

For the purpose of cutting down the budget deficit, another important reform was inaugurated: the limitation of budget issues of Soviet rubles, i.e., those issues which had been resorted to in order to cover budget deficits and which were now, under the new law, limited to not over 15 million gold rubles a month, calculated at the current gold rate or, to be more precise, at the rate of the chervonets on the first of each month. This reform, introduced in May 1923, was the result of much work concerning the regulation of the state budget. The taxation system was already well developed in 1923 and yielded considerable revenue. Begin-

the list" at fixed rates. For example, one acre of improved land, 10 shillings, other lands at arbitrary rates; an ox or steer four years old, £4; three years old, £3; two years old, £2; one year old, £1; a horse three years old or over, £3; all "horse kind" two years old, £2; and so on. (Wood, *History of Taxation in Vermont*, Columbia College Studies, IV, 3.) Such methods of assessment arise where there are no established values or determinable production averages, or where the ignorance of taxpayers and tax collectors makes a simple system of counting physical units preferable to one where, as in the case of valuations, discretion or judgment is required. The "door and window" taxes common at times in many parts of the world, and specific as against ad valorem customs duties and excises, have the same advantage of simplicity and certainty. The tax described in the text may easily have been better by reason of simplicity than one theoretically more in proportion to values which in practice might have proved a means of oppression and favoritism. Indeed, it is hard to see how in Russia at the stage of economic instability then prevailing, and without a monetary system for measuring values, any other than a system of counting of physical units could have been applied for the assessment of taxes. (EDITORS.)

ning with the second half of that year, taxes were calculated on a gold basis and levied at the current rate of the chervonets; and although this dealt a new blow to the Soviet ruble, accelerating its depreciation, the decision already arrived at that the currency must be reformed and the Soviet ruble eliminated rendered the action imperative. Firm action in introducing order into the expenditure of the budget made it possible to reduce the deficit to a point where a paper issue of 15 million gold rubles a month was sufficient.

The third requisite to currency reform was the creation of a favorable trade balance. This was accomplished, and a balance of over 100 million rubles was attained, partly as a result of good crops and the consequent possibility of large exports of grain, and partly through a policy of extreme economy in imports. An increasing yield of gold within the country (from Russian mines), and a growth of the foreign currency fund through money orders from abroad, etc., also helped.

At the beginning of 1924 all three of the indispensable conditions of a successful currency reform were at hand. Because of depreciation, the actual gold value of the total currency in circulation on January 1, 1924, was only 58 million rubles—a small fraction of the nominal amount. The Soviet ruble was by that time no longer used in any large or even medium-sized transactions; it served in retail trade and as small change, though it was unsatisfactory even there because its instability endangered the profits of the retail dealer. To insure himself against loss, he raised his prices sufficiently to cover possible depreciation. Of course the volume in circulation would never have sufficed for a normal amount of trade if it had not been for the fact that the rate of circulation was usually rapid, for the Soviet rubles were never regarded as suitable for wealth accumulation; on the contrary, everyone tried to get rid of them as quickly as possible by purchasing commodities even if he did not need to at the moment. Thus the value in gold of the currency remained very low.

The falling paper currency might have been stabilized in either of two ways: by issuing bank notes in denominations

smaller than the chervonets and exchangeable for it, or by a Treasury issue of small change, tied to the chervonets and freely exchangeable for it on demand. For a number of reasons, of which the principal one was the necessity of safeguarding the chervonets—the backbone currency—from all eventualities, the second method was chosen; and on February 5, 1924, an issue of State Treasury notes in denominations of 5 rubles, 3 rubles, and 1 ruble was decreed. The law did not make obligatory the payment of chervontsy in exchange for Treasury certificates; but as the latter were accepted by the Treasury in all payments on a par with the former, the State Bank followed suit and the new currency was accepted by the public as though it represented fractions of a chervonets. To prevent the Treasury from issuing excessive amounts of these certificates, the law established a limit, namely, one-half of the total chervontsy in circulation, within which limit were included the copper and silver coins, which were issued under a special decree. The next move, a decree of February 14, announced that after February 15 the issue of Soviet rubles would be discontinued and the stocks of this currency remaining in the hands of the government would be destroyed. The old currency held by the people was made exchangeable within a definite time at the stable rate of exchange of one gold ruble (one-tenth of a chervonets) for 50 billion Soviet rubles.<sup>16</sup> At that rate, the gold equivalent of the whole enormous mass of paper currency issued since the beginning of the World War was the ridiculous sum of 15 million gold rubles.

The new Treasury certificates were very quickly absorbed in the circulation, which stood in acute need of some stable unit; and at the end of about six months a total of 200 million rubles of these certificates was in circulation. The amount grew rapidly and economic activity, in general, supported by a stable currency showed quick development. The following years were marked by a struggle for the maintenance of this stability and the defense of the ruble's position in the international market.

<sup>16</sup> That is, one cent in American money equaled very nearly a billion rubles. (EDITORS.)

The next task was to improve the financial system in such a way as to guarantee the speediest possible socialistic reconstruction of the country.

## II. DIRECT TAXATION<sup>17</sup>

The system of direct taxation operating in the Soviet Union has a double aim: to obtain increasing revenue for the budget, and to regulate the accumulation of wealth in city and village by redistributing the nation's income between the various social classes. Since the state and co-operative organizations are taxable, taxation is also instrumental in redistributing revenue between the state and the co-operative organizations.

The fiscal importance of direct taxation is enormous. The 1926-1927 budget shows a gross total of direct taxes and duties, actually received, of 1.1 billion rubles in round numbers, or more than 20 per cent of the total revenue of the state, which was 5.2 billion rubles. In the projected budget for 1927-1928 these figures are, respectively, 1.2 billion rubles and 6.1 billion, and in the preliminary estimates for 1928-1929, 1.4 billion and 7.0 billion. Direct taxes thus make up about one-fifth of the budget receipts, as shown in the total budget statistics.

The actual ratio of direct taxes to clear revenue receipts is, however, much higher, for the totals include among in-

### DIRECT AND INDIRECT TAXES COMPARED

	1925-1926	1926-1927	1927-1928*	1928-1929†
Direct taxes, in billion rubles....	0.8	1.1	1.25	1.4
Percentage of total.....	44.4	44.0	43.1	43.0
Indirect taxes, in billion rubles...	1.0	1.4	1.65	1.85
Percentage of total.....	55.6	56.0	56.9	57.0
<hr/>				
Total, in billion rubles....	1.8	2.5	2.9	3.25

\* As per final execution of the budget.

† As per preliminary budget estimate.

<sup>17</sup> In comparing the data of this and the other sections on the NEP with one another it must be borne in mind that the figures for 1927-1928 have been taken from budget allocations confirmed by the government, the trade license tax being given without the addition for local budgets.

direct taxes, the gross receipts from transportation and from various other governmental activities. If we use only the net profits from these sources, the ratio of direct taxes to the whole becomes much higher, the figures for the past few years being as given in the tabulation above.

An important reason for this preponderance of indirect taxes is that the direct agricultural tax on the villages has been reduced in the interest of harmony between the state and the peasantry.

The proportion of direct taxes has been declining, though very gradually. The government considers this a drawback in its budget policy, for indirect taxes do not reflect the financial strength of the population as well as do the direct taxes; yet it is forced to continue to develop indirect taxes until such time as the whole tax system shall be firmly stabilized and the growth of large communal economic units shall make it possible to abstain entirely from indirect taxes or at least reduce them to a minimum.

As shown in the preceding chapter, the social and economic conditions that have come into existence in the Soviet Union modify the odious injustices of indirect taxation. The Russian system of direct taxation goes still farther, as direct taxes are firmly based on social class distinctions and are thus one of the mightiest levers of the Soviet social policy. In them, as we shall see later, the principle of progressive taxation has found its most consistent expression, and through this it is possible to minimize surplus accumulations of private wealth not only in the cities but especially in the villages among the well-to-do peasantry.

Direct taxes and duties are: (A) the agricultural tax, (B) the income tax, (C) the trade license tax, (D) the tax on surplus profits, (E) the rent tax, (F) the tax on inheritances, and (G) stamp and other duties. Each of these we may now analyze in detail.

#### A. THE AGRICULTURAL TAX

Historically, the development of this direct peasant "single" tax has passed through the following stages: distributive quota, tax in kind, agricultural tax. We have al-

ready seen, above, how the tax in kind was converted into a money tax. After January 1, 1924, payment in kind on account of the agricultural tax was definitely discontinued and the collection of the tax entrusted to the People's Commissariat of Finance instead of to the Commissariat of Food as before. The newly reformed tax, however, suffered from a number of serious drawbacks: namely, its unwieldiness, its over-taxation of cattle, its incidence on every unit of arable land instead of every ruble of income, its insufficient degree of progression (in relation to the size of incomes), its lack of equitableness, and, finally, its excessive rates. These defects forced the Commissariat of Finance to urge a further reform, and the proposal was made to tax (a) not only field crops and cattle but also the income from other, so-called secondary or auxiliary branches of agriculture, such as poultry-raising, bee-raising, etc., the aggregate income from which amounted to several billion rubles annually; and (b) the non-agricultural incomes of the peasant population, such as occasional or seasonal earnings in cities or other places away from home, income from peasant household crafts, etc. To carry out these projects would involve the elimination of all traces of the natural tax or the distributive quota which still survived in the agricultural tax.

The project, was not, however, carried out at once. In 1924-1925 a first step was taken, by introducing the calculation of rates in rubles instead of in produce units such as puds of rye as formerly; and a number of other smaller changes were made. They failed, however, to alter the system fundamentally or to remove the serious defects already mentioned.

When the agricultural tax for 1925-1926 was planned, the government decided to lower its rates materially and thus to ease the burden on the peasantry, this reduction amounting to about 30 per cent. In 1923-1924, 21.5 million peasant homes paid the agricultural tax, and less than one-half million, or about 2 per cent, were exempt. In 1924-1925, 4.5 million peasant homes, or about 20 per cent, were exempt; and in 1925-1926, 6 million, or about 25 per cent.

A more fundamental reform in the tax took place in

1926. It gave the agricultural tax the aspect which it has in the main preserved till today. The starting-point was the necessity of applying the class principle more definitely. For this purpose the government divides the village people into three strata, taking a different attitude toward each: the poor, the medium, and the rich (or kulaks). Those who have very little land—up to 2 desiatins—are classed as poor; the medium, constituting a large majority of the peasantry, are those who have from 2 to 8 desiatins, sometimes as high as 10, and who do not regularly employ hired labor; the well-to-do are those who own more than 8 desiatins. It goes without saying that the quantity of land owned is not the only index applied. A most important, and often the decisive, factor is number of cattle, implements, buildings, etc. The policy toward these three classes is to find permanent active political support exclusively in the poor, to maintain a sort of neutrality toward the medium, and to wage war against the kulaks. The fundamentals of this policy were laid down as early as Lenin's time,<sup>18</sup> and on them rests the whole activity of the Communist Party and the Soviet government in the villages. Thus, as the agricultural tax is one of the most important factors in village life, it must reflect the stated policy as precisely and as consistently as possible.

In 1920, according to the data of the central statistical bureaus, the kulak group in the villages was so small as to be negligible, including only about one-half of one per cent of all the households. In 1926–1927 this class had risen to 10 per cent, while about one-half of the whole village households were of medium status, and about 35 to 40 per cent were poor. The increase in the proportion of kulaks is undoubtedly due to the NEP and the penetration of money into the villages, which increased social differences among the rural inhabitants. The kulaks grew in strength; inequality of possessions became more pronounced; and the process of equalization in the villages, which had been taking place before the NEP, ceased.

Thus it became imperative to direct the point of the new

<sup>18</sup> Lenin died on January 21, 1924.



tax system against the kulaks; to exempt most, if not all, of the poor; and to get the bulk of the revenue from the medium peasants. This policy has been foremost in the tax legislation for the last three years, and the modification of the agricultural tax has been made in three directions: its income-tax nature has been accentuated, its rate of progression accelerated, and the complete or partial exemption of poor or medium poor households extended. To make clear the extent to which the tax follows these three principles, let us analyze the system now in use.

The agricultural tax is levied on every peasant household, except those exempt, according to its income from (1) grain cultivation; (2) hay meadows of every description; (3) all kinds of cattle, working cattle, cows, sheep, goats, and hogs; (4) all special and auxiliary branches such as apiaries, tobacco raising, gardening, fruit orchards, etc.; (5) non-agricultural earnings, such as peasant crafts, etc., wages for work performed, etc.; and (6) profit gained through the use of individually owned tractors in substitution for human labor.

Receipts from the first three sources—field grain crops, hay meadows, and cattle—which compose about four-fifths of all peasant agriculture, are estimated by multiplying the number of desiatins or the number of cattle belonging to one household by certain standard norms of profit-bearing fixed for each of the above-mentioned sources of income.

The standard norms are obtained as follows: the government of the Union finds average figures of profitableness for each of the republics of the Union; the governments of these republics then establish a figure for each of their gubernias, and the gubernia government adjusts them to the uyezds, volosts, and villages. Within a single village the norm is the same for all individual households. The norms for the profits from the use of mechanical tractors are fixed by gubernia authorities. As to the non-agricultural earnings, they are subdivided into several groups, for each of which a special rate of taxation is fixed. In particular, medical workers, land surveyors, teachers, judges, etc., working in rural communities are exempt from the agricultural tax.

The total of the agricultural tax obtained from all the

sources given above may be further increased by levying a surtax on certain well-to-do groups, as decreed by the government of a particular republic; and, finally, in order to reach with greater certitude the households of labor-exploiting and money-lending kulaks, the method of the so-called "individual taxation" has been adopted. It has been decreed, however, that in these cases the taxable amount, as based on the actual income of the individual, must not exceed twice the income of this individual as calculated by means of the general norms.<sup>19</sup> Less than one million out of the 25 million households will become liable to this surtax.

After the income has been calculated by this method, 20 rubles per person of the household are exempt. For example, if the income of a household consisting of five persons, or consumers, is found to be 400 rubles, 100 rubles are exempt and only the remaining 300 rubles are taxed.

It is easy to see that such a conception of "taxable income" is, to a great extent, artificial, and alters the income-tax nature of the agricultural tax. Yet it is partly justified by the nature of peasant agriculture. Under Russian conditions, where the great bulk of peasant produce is consumed on the spot and never reaches the market, the conception of income becomes very conventional. We would be closer to truth were we to take as our starting-point the so-called conventional net profit, i.e., the gross value of all produce of a farm minus the value of seed grain and cattle feed, the two latter representing, as it were, production costs. Besides, we should consider the actual prices at which the peasant sells his produce and not average norms established by central governments. As the situation is at present, the so-called taxable income is considerably lower than the conventional net profit, and the better off a household the greater this difference. Indeed the returns of a well-to-do farm from each of its resources are considerably above the average official norms, for these averages are calculated from data which include a majority of poorly operated farms. Moreover, well-to-do households conceal consider-

<sup>19</sup> It will be observed that the general norms must be below actual income. (EDITORS.)

able land holdings and cattle when the assessment is made. The sowed area reported as taxable under the agricultural tax is short of the actual area by about 15 million desiatins; and reported cows and horses number about 7 to 8 million head less than are actually possessed by the peasantry. Of the 4 billion rubles of non-agricultural earnings of the peasantry only about 300 million rubles, or 7 per cent, are taxed; of all sheep and hogs, only 25 per cent. All in all, about one-half of the peasant income slips by the tax gatherers. In other words the agricultural tax has achieved its income-tax purpose, as yet, only to the extent of about one-half. Here it must be observed, however, that the government has intentionally undertaxed certain crops, chiefly those having commercial importance, in order to encourage them. Yet a further development of the income-tax nature of the agricultural tax remains one of the foremost problems.

The rate of progression of the agricultural tax was increased as early as 1925-1926, in accordance with resolutions adopted by Conferences of Soviets and of the Communist Party; but it was still insufficient. It has been increased since, as may be seen from the following table:

**A COMPARISON OF THE AGRICULTURAL TAX BURDEN OF  
1925-1926 WITH THAT OF 1927-1928**

Taxable Income per Consumer (Rubles)	Percentage of Income Taken	
	1925-1926	1927-1928
30 .....	3.56	2.30
40 .....	4.20	3.00
50 .....	5.02	4.40
60 .....	6.48	6.50
70 .....	7.59	8.57
80 .....	8.42	10.13
90 .....	9.07	11.56
100 .....	9.59	12.70
120 .....	10.32	14.75
140 .....	10.89	16.21
160 .....	11.27	17.31
180 .....	11.61	18.17
200 .....	11.85	18.85
250 .....	12.31	20.08
300 .....	12.62	20.90

Nominally, the progression is quite steep. A peasant household earning 1,250 rubles was taxed in 1927-1928 to the extent of 20 per cent. In 1928-1929 this percentage will be somewhat higher still; but, since the amount of the family exemption is to be increased, the number of persons taxed will be less. According to data for 1926-1927, the upper 20 per cent of the rural population bears half of the agricultural tax. About 6 million of the households of the poor, or almost 25 per cent, were tax-exempt in 1926-1927; in 1927-1928 a special manifesto of the Soviet government on the occasion of the tenth anniversary of the October Revolution decreed exemption for an additional 10 per cent of peasant households, so that during the past year 35 per cent of all households were exempt, though 8 per cent of them were only partially so. For 1928-1929 the law provided for a complete exemption of 35 per cent, or 8.5 million households. Obviously we are approaching complete exemption of the lower stratum of the rural population from the agricultural tax.

It is hardly possible to find in the whole history of taxation another instance of such a clear-cut application of the class principle.

How does the agricultural tax reflect on agriculture, and does it hinder the development of the productive forces of the villages? The following table answers this in a general way:

#### INDICES OF THE PROGRESS OF AGRICULTURE, 1924-1928

	1924-1925*	1925-1926	1926-1927	1927-1928
	%	%	%	%
Conventional net income of				
peasants .....	100	127.1	134.6	140.7
Money income of peasants	100	130.3	142.4	157.5
Sown area .....	100	106.7	113.7	117.4
Work horses .....	100	102.4	109.1	115.7
Agricultural tax .....	100	72.2	95.7	92.4

\* Note that the indices of 1924-1925 are taken as 100 per cent.

We see that all the indices of peasant farming tend upward, beginning with 1924-1925, while the agricultural tax,

although unevenly, tends to remain below that of 1924-1925. The same may be seen from the following data:

RELATION OF AGRICULTURAL TAX TO MONEY INCOME  
OF PEASANTS

(*Million rubles*)

	1924-1925	1925-1926	1926-1927	1927-1928
Agricultural tax for year July 1 to June 30 .....	346	250	331	320
Money income of the peasantry from sales of produce and from non-agricultural earnings .....	3,300	4,300	4,700	5,200
Percentage of the money income levied as agricultural tax....	10.6	5.8	7.1	6.2

As a whole the agricultural tax does not overburden the village and does not hinder the general development of its productive forces.

Yet in its present form the tax suffers from serious defects. The chief one is that the actual income of a peasant farm is not considered individually, and the household is taxed on the basis of average norms which, being figured out in central administrative offices, are based on a definite amount of tax to be collected from the whole Union. Taxation is here consequently construed from the general to the individual, and is not the result of individually applied rates. As the village progresses and becomes better off materially, the reconstruction of the tax on the basis of individual calculation will become more and more urgent. At present it is difficult to say which policy the Soviet government will adopt. Voices are heard in favor of dividing the agricultural tax into a rent tax and an income tax, the latter affecting some 15 per cent (or 3 to 4 million) of the households; others advocate a purely land-based tax. The question will ultimately be decided by whether or not the Soviet government will be able to improve the organization of the lower administrative offices so as to assure an investigation and accounting of the condition of each household. There are many reasons for believing that this is precisely the way

in which the best results may be achieved. It would help create in the future a single income tax for city and village and would eliminate another source of controversy between these two elements in the population.

#### B. THE INCOME TAX

The income tax was introduced as early as 1922 under the title of "Income-Property Tax." At that time it was intended to tax the income of professional men who paid no other taxes; of persons living on unearned incomes; of shareholders of dividend-producing undertakings; of agents and brokers; and, finally, of employees whose salaries exceeded a fixed amount. The rates were not high, and this whole tax was in essence not unlike a trial of strength, or an attempt to create a preliminary organization which would develop sufficiently to attack more important problems in the future. At that time, the question arose as to whether income only should be taxed or property also should be included even if it brought no present revenue to the owner. The conditions prevailing at the moment played a decisive part in the controversy: the survivors of the old bourgeoisie were liquidating their holdings and drawing income from the sales, while the newly arising bourgeoisie were converting their incomes into property.

Therefore, if property were to be exempt, taxation of the new bourgeoisie would be impossible. However, further development of trade and of money circulation in the country reversed this situation and, from 1924 on, the income-property tax was changed into an income tax. In 1925-1926 the income tax was divided into a normal tax and a progressive surtax; but in the autumn of 1926 it was again modified, the normal tax being abolished and the tax constituted in its present form. The details of this modification were given in a government decree of December 14, 1927.

The fundamental purpose of the income tax is to regulate the accumulation of private capital in cities. Thus it performs the same function as the agricultural tax in the villages. Since the adoption of the NEP, the old bourgeoisie, shaken out of its old ruts by the Revolution and the period

of military communism, has tried to adjust itself to the new conditions and to develop once again. In still greater degree a new bourgeoisie has sprung up, the so-called "nepmen," who have adroitly taken advantage of the various weaknesses of the government, of its lack of skill in starting trade anew in the country, of its insufficient knowledge of market conditions, etc. The working capital with which these private capitalists now entered the game consisted of scraps of property which had escaped requisition; of materials bought at nominal prices from the trusts when the free market was restored; and, to an insignificant extent, of credit obtained in Soviet banks. According to estimates of certain experts, this capital fund of the bourgeoisie aggregated 150 million gold rubles, including money obtained from the sale of precious stones, gold, and foreign currency which had been concealed during the period of military communism. The versatility of the private capitalist and his skill in adjusting himself to market requirements gave him a fairly advantageous position; and the fact that in spite of these advantages the proportion of privately owned capital in all branches of Soviet Russia's economic activity shows a tendency to decrease must be credited to the whole social-economic policy of the government, which has at its disposal many and varied means whereby to retard the growth of private capital or to eliminate it.

At the close of 1927 the capital funds invested in building and equipment of industrial plants privately owned or leased<sup>20</sup> were estimated at 700 million rubles, an increase in four years of 40 million rubles, or about 7 per cent. It must be noted here, however, that none of the figures relating to private capital are precise, for concealments and understatements on the part of the capitalists make any approximation extremely difficult. The portion of this capital, however, which is invested in industry, can be estimated much more closely than that invested in trade. The 700 million rubles mentioned above are invested chiefly in small

<sup>20</sup> Information concerning the share of private capital in industrial enterprises is contradictory. Some estimates put it at 500 million rubles.

industries and in peasant household crafts, as may be seen indirectly from the following table:

**GROSS PRODUCTION OF PRIVATE AND CONCESSION INDUSTRIES**

	Medium Industries (Million Chervonets Rubles)	Petty, and Peasant Craft (Million Chervonets Rubles)	Total (Million Chervonets Rubles)	Percentage of Gross Production of Entire Soviet Union
1923-1924 .....	193	1,274	1,467	24.9
1924-1925 .....	256	1,543	1,799	21.8
1925-1926 .....	391	1,774	2,165	18.8
1926-1927 .....	439	1,917	2,356	18.1

While there is an absolute increase in private production, that of the state and the co-operative organizations grows more rapidly. Nevertheless, private industry, especially in the small crafts, plays a very important part in supplying the people, for it serves chiefly the peasantry. The output of heavy industry is used largely by the cities, and only a small part of it reaches the villages. The significance of private industry becomes still more apparent if, instead of comparing its output with the total gross output of all industry, we compare it with that part of the whole industrial output which is sold in the market. The gross output and the marketed output of petty industry are almost identical, while in the case of large industry one figure differs from the other by almost 15 per cent.

A greater amount of private capital is involved in trade than in industry, though there is no satisfactory way at present of determining exactly what it is. It is known that the annual sales in private trade have reached an aggregate of 5 billion rubles, and estimates based on data of the Commissariat of Trade place the capital involved in 1926 at 600 million rubles. Apparently this is a minimum figure; it must be higher at present. But whatever the exact figure may be, private capital, as we shall see, in the section on the trade-license taxes, occupies an important place in the domestic commerce, reaching one-fifth, more or less, of the total trade of the country.



Private persons have a considerable investment in dwellings, the aggregate being estimated at 4 billion rubles (or about one-half of the total value of dwellings in the entire Soviet Union). This sum is modest in comparison with pre-war figures, but it has shown a vigorous tendency to increase during the past five years, the growth averaging probably 20 million rubles per annum for the period.

The part played by private capital is therefore considerable, and its absolute increase continuous. Thus the income tax is of the greatest importance. Individuals as well as corporations are taxed, income being considered to be the difference between total gross receipts in money and in kind, and total expenses incurred.

All taxpayers are divided, according to social status, into three classes, for which there are three corresponding progressive schedules of taxation: (1) workers and employees; (2) peasant craftsmen, artisans, and the majority of persons exercising free professions; and (3) persons living on unearned income. Individuals are taxable if their income for the preceding year exceeded 1,200 rubles for the first class or 800 rubles for taxpayers of the second class. The highest rates are for the non-laboring class, the more moderate for those who labor for their own account, and the lowest for hired laborers. Incomes under 1,000 rubles a year in class 1 are taxed at 0.7 per cent, those in class 2 at 2.5 per cent, and those in class 3 at 3 per cent. An income of 40,000 rubles a year in class 3 would be taxed, including the additional 25 per cent for the local budget, at 46 per cent. A worker or employee earning 3,000 rubles a year pays 1.9 per cent; a peasant craftsman, an artisan, or a person exercising a free profession pays 3.7 per cent on the same amount; and a private capitalist receiving 3,000 rubles pays 8.7 per cent. A private capitalist with an income of 100,000 rubles a year would be taxed as high as 59 per cent. A comparison with the income-tax rates obtaining in the United States of America, according to the data of the Institute of Economic Investigations of the People's Commissariat for Finance for the years 1924-1925, is shown in the table on the following page.

COMPARATIVE RATES OF TAXATION FOR FAMILIES  
HAVING TWO CHILDREN<sup>21</sup>

Yearly Income	Rate in United States	Rate in U.S.S.R.*	
	%	Workers and Employees %	Others %
<i>Earned Income</i>			
1,090 rubles .....	...	0.9	3.5
1,740 rubles .....	...	1.5	4.4
4,350 rubles .....	0.4	2.3	10.2
10,870 rubles .....	1.9	10.1	19.6
<i>Business (Commercial) Income</i>			
1,090 rubles .....	...		4.0
1,740 rubles .....	...		6.5
4,350 rubles .....	0.4		12.3
10,870 rubles .....	2.3		24.9
21,740 rubles .....	5.9		37.4
108,700 rubles .....	25.9		52.5
217,400 rubles .....	34.6		54.4
1,087,000 rubles .....	43.5		56.0

\* Under the law of 1926.

The progression in the U.S.S.R. is much steeper. The apparent approximation of the two rates on large incomes (exceeding 1 million rubles) is a purely academic matter, because there are no such incomes in the U.S.S.R. and their appearance is practically impossible owing to the social structure of the Soviet state. Besides, the progression of this tax rate in Russia is increased by supplementary taxes on so-called excess profits, and this is in essence a direct increase in the income tax, for it is paid by nearly all private

<sup>21</sup> The figures given in this table for the burden of the United States income tax are puzzling. Since the distinction between earned and unearned income was not made until 1924 it is to be assumed that the rates used could not be the higher rates of the older laws. Nor was there ever any tax on a man with wife and family of two children whose income was less than \$2,400 (4,350 rubles equals \$2,385). The table is therefore in error on that item even if some law older than 1924 were the source from which the Institute took the rates.

On account of the differences in "credits" for dividends and family conditions, the receipt of tax-exempt interest, the allowance for "earned" income granted whether earned or not, and the distinction in rates for capital gains, it is seldom that any two persons in the United States having the same income and the same-sized family would pay the same tax. But

capitalists. The taxable minimum in the U.S.S.R. is lower, because both the general and the individual standards of material welfare are considerably lower.

The returns of 1926-1927 show that the payers of income tax numbered about 1.6 million. Their aggregate income was about 2.6 billion rubles and was taxed to the amount of 137 million rubles (about 5 per cent).

Let us analyze the distribution of this amount as between the three basic groups of taxpayers. (See table, p. 174.)

if we use the 1924 tax rates and assume the most unfavorable state of affairs to the taxpayer that is possible, we might set up the following table as a revised substitute for the Institute's figures:

TAX BURDEN UNDER UNITED STATES INCOME TAX, 1924 LAW

Yearly Income	Normal Tax	Surtax	Total Tax	Percentage
<i>Earned Income</i>				
1,090 rubles = \$561 .....	0	0	0	0.0
1,740 rubles = \$891 .....	0	0	0	0.0
4,350 rubles = \$2,385 .....	0	0	0	0.0
10,870 rubles = \$5,594 .....	\$41.91	0	\$41.91	0.75
<i>Unearned Income*</i>				
1,090 rubles = \$561 .....	0	0	0	0.0
1,740 rubles = \$891 .....	0	0	0	0.0
4,350 rubles = \$2,385 .....	0	0	0	0.0
10,870 rubles = \$5,594 .....	\$47.38	0	\$47.38	0.85
21,740 rubles = \$11,187 .....	\$226.98	\$11.87	\$238.85	2.13
108,700 rubles = \$55,940 .....	\$2,090.90	\$4,660.00	\$7,569.90	13.52
217,400 rubles = \$111,870 .....	\$6,265.70	\$21,413.00	\$27,678.70	24.71
1,087,000 rubles = \$559,400 .....	\$32,117.50	\$193,780.00	\$225,897.50	40.34

\* Of this amount, \$5,000 arbitrarily accounted earned.

The Institute of Economic Investigation of the People's Commissariat for Finance may well plead in extenuation of its errors with reference to the United States income-tax burden that the United States law is so complicated that the briefest of the complete income-tax payers' annuals for 1924-1925 required 1,898 pages to expound the law and that being the case a foreigner might easily be misled. Per contra an American may well refuse the task of criticizing or even checking the Institute's estimates of the effect of the Russian tax.

Finally, it may be conceded that the United States war income-tax rates, including those down to 1922, were very heavy and that the 1926 Russian tax was in a very distinct sense a war revenue measure. Thus the 1918 United States tax started with low rates on incomes over \$2,400 (for man, wife, and two children) and rose sharply with a theoretical limit (never attainable even by an income of an infinite amount) of 77 per cent. The tax on an income of \$1,000,000 under that law might amount to close upon 65 per cent. (EDITORS.)

## DISTRIBUTION OF INCOME TAX

Class	Number of Taxpayers		Taxed Income		Taxes Paid	
	Absolute Numbers	Per-cent-age of Total	Absolute Numbers (Billion Rubles)	Per-cent-age of Total	Absolute Numbers (Million Rubles)	Per-cent-age of Total
Workers and employees . . .	775,000	49.3	1.2	45.5	13.5	10.0
Persons earning their income but not hired.	418,000	26.5	0.5	19.0	18.0	13.2
Persons with un-earned income	380,000	24.2	0.93	35.5	105.0	76.8
Total . . . . .	1,573,000	100.0	2.63	100.0	136.5	100.0

The class basis of taxation is here distinctly apparent: persons performing hired labor and receiving, in the aggregate, about one-half of the entire private income, pay only 10 per cent of the whole tax; persons enjoying unearned (non-labor) incomes, who number about one-fourth of all the taxpayers, pay three-fourths of the total tax. In this last class are many small tradesmen or industrials with modest incomes.

In the bourgeois class the income tax is distributed as follows:

## BOURGEOIS INCOME TAX

Yearly Income (Rubles)	Number of Taxpayers	Income Taxed (Million Rubles)	Tax Paid (Million Rubles)
Up to 1,000 . . . . .	124,000	93.0	2.6
1,000 to 5,000 . . . . .	218,500	480.0	29.4
5,000 to 10,000 . . . . .	28,000	190.0	27.0
10,000 to 20,000 . . . . .	7,500	97.0	22.3
20,000 and up . . . . .	2,000	70.0	24.0
Total . . . . .	380,000	930.0	105.3

The group of persons with comparatively large incomes is small and, thanks to intensive taxation, 44 per cent of the whole tax is borne by only 9,500 taxpayers (the last two groups).

C. THE TRADE (AND CRAFT) TAX

The first tax introduced under the NEP was a trade tax. It was very primitive in nature, all trade undertakings being divided into only three classes, corresponding to the primitive forms of trade still prevalent before the effects of the NEP had made themselves felt. Each enterprise was required to purchase in advance a certificate or license corresponding to one of the three classes and to pay in addition the so-called equalization tax, which was levied on the basis of the amount of the working capital in each case. The sum paid for the certificate was deducted from the amount of the tax as finally determined, and therefore represented, as it were, a deposit paid in advance. This scheme, under which the trade tax in reality consisted of two taxes, the trade-certificate payment or license tax and the equalization tax, has been retained, but has been improved and modified to fit the more complicated forms assumed by the national economy. The trade license tax was radically modified in 1928, for by that time the whole commercial and industrial business of the country had assumed a very different character and its standards had changed. To make these changes in trade activities during the later years clear, we may analyze the relative positions and the progress of state trade, co-operative trade, and private trade (including the intermediate or mixed commercial activities) as follows:

SALES IN BILLIONS OF RUBLES

	State Trade		Co-operative Trade		Private Trade		Total Trade	
	Absolute Numbers	%	Absolute Numbers	%	Absolute Numbers	%	Absolute Numbers	%
1923-1924 ..	3.0	31	2.8	28	4.0	41	9.8	100
1924-1925 ..	5.0	36	5.2	37	3.7	27	13.9	100
1925-1926 ..	7.0	33	9.0	43	5.0	24	21.0	100
1926-1927 ..	7.8	34	10.2	45	5.0	21	23.0	100

The relative volume of state trade remains nearly stable; co-operative trade has grown considerably, partially displacing private trade, the proportion of which has sharply declined. At the present time, co-operative business has grown until it is more than double all private business.

Statistical data on licenses taken out semi-annually give a clear idea of the growth of trade and the number of trading enterprises, as follows:

#### TRADE LICENSES ISSUED

	State	Co-operative	Private
Second half of 1923-1924.....	22,400	71,400	496,400
First half of 1924-1925.....	29,700	102,500	469,700
Second half of 1924-1925.....	29,800	112,400	524,400
First half of 1925-1926.....	34,200	117,800	590,200
Second half of 1925-1926.....	38,600	119,700	608,300

There is an increase in all three classes, but it is more rapid in state and in co-operative trade. A comparison between the two tables also reveals the nature of the trade. State trade is chiefly wholesale and concentrated in the cities, private is mostly retail, and co-operative, midway between the two, has most of its shops in villages. Of late years private capital, being, as it is, crowded out of the city markets, has been attempting to penetrate into the villages, and not without success. About 70 per cent of all private trade consists of booth trade and other varieties of peddling, large enterprises accounting for only about 4 per cent. These larger private enterprises show the greatest degree of stability, and their number has been increasing in recent years. The average sales of individual enterprises in state, co-operative, and private trade may be seen from the following:

#### AVERAGE SALES PER ENTERPRISE

	Trade (Rubles)	Industry (Rubles)
State .....	277,400	569,400
Co-operative .....	106,200	112,600
Private .....	15,600	31,100

The insignificant sales of individual private undertakings confirm the statement above regarding the prevalence of petty trade among them.

The data just given concerning the structure of Russia's trade show that it is very unlike that which existed at the

inception of the NEP. In the beginning a majority of the trade-tax receipts came in from private trade; while at present about two-thirds of these receipts come from state and co-operative enterprises, and later laws have modified and simplified the trade tax accordingly. The combination of the certificate tax and the equalization tax which formerly existed is abolished; the certificate tax no longer exists and only a tax on the amount of business done remains.

The abolition of the certificate tax was due, first of all, to the fact that it was not equitable. The larger the business, the smaller relatively was the certificate tax it paid, for this tax was a fixed amount. Besides, the certificate tax had lost its meaning as an independent tax, because a large portion of it came to be credited toward the equalization tax. In addition, the certificate tax created a great deal of complicated work for the government offices charged with its collection.

Thus the trade tax became greatly simplified. Instead of scores of different rates on the different classes of undertakings, only sixteen now remain. They differ as between private and other trade; but the lower rates which were applied to co-operative business were abolished and co-operative trade put on an equal footing with state trade. Also, in place of the various surtaxes which were levied for local budgets, a uniform scheme of deductions<sup>22</sup> for this purpose has been substituted. Yet another very important modification was the merging of the tax on conversion of values with the trade tax, a measure which will be discussed later in greater detail in the section on duties.

As a result of all these modifications in the trade tax it has assumed the following shape: all enterprises and personal commercial pursuits as enumerated in the law are subject to the tax. The sales of the current year are the

<sup>22</sup> "Surtaxes" and "deductions" for support of local governments. When the state levies and assesses the tax but allows a city or district to superimpose a rate over and above the state rate, the local tax is called a surtax. But when the state fixes the aggregate or total tax and grants the city a part of the proceeds, say half or three-fourths, the Russians call it a "deduction" or allocation. (EDITORS.)

basis, and the rate of the tax is fixed at a percentage of the sales. For individual traders and artisans the rates are permanently fixed, but all other enterprises are divided into sixteen classes, the classification resting upon the greater or the less importance of the given branch of trade from the standpoint of public usefulness. For example, trade in luxuries, such as perfumes, etc., is subject to a heavier tax than trade in prime necessities. Each class pays a certain percentage of the turnover, this rate being lower for state and co-operative undertakings and higher for private ones, as the following table shows:

#### RATE OF TAX IN PERCENTAGE OF TURNOVER

Class	For State and Co-operative Undertakings	For Private Undertakings
I .....	1.6	2.15
V .....	2.8	3.35
X .....	4.3	5.15
XVI .....	14.8	17.15

The higher the class to which an undertaking is assigned, the greater the difference between the tax rates paid, respectively, by private and by state and co-operative undertakings in that class. In the first class this differential is only 0.5 per cent; in the highest it reaches to 2.5 per cent.

To determine the correct tax rate on individual trades they are divided into three classes with the following limit rates:

#### LIMIT RATES FOR ALL TERRITORIES EXCEPT MOSCOW

Class	Rates (Rubles)
I .....	6 to 18
II .....	16 to 48
III .....	24 to 72

It is customary to consider the trade tax as a direct tax, yet this is not quite correct. It is essentially a universal excise duty, having a certain specific purpose as a means of influencing trade turnover, and it should logically be placed between direct and indirect taxation. Its fiscal importance is very great; in 1928-1929 it is expected to yield nearly one



billion rubles, while its universality lessens its burdensomeness. The average taxation of trade in 1927-1928 was 1.33 per cent of the total business for private, and 0.62 per cent, or half as much, for state trade. What this figure will be when the new law takes effect, we cannot predict for lack of experience; but it will in any case be considerably higher than the 0.8 per cent on total business collected in 1926-1927, because the tax on conversion of values has been abolished and the trade tax must compensate for its loss.

#### D. THE TAX ON EXCESS PROFITS

In the second half of 1925-1926, an excess-profits tax of a very peculiar sort was introduced. Its chief purpose was to reach the profits resulting from the commodity crisis and the high retail prices charged by private trade for especially scarce commodities. On an average for all commodities, retail prices exceeded the wholesale prices of the state trusts in 1927, from January to March, by 22.7 per cent; from April to June, by 22.2 per cent; from June to September, by 23.7 per cent; and for the first quarter of 1927-1928, i.e., October-December, 1927, by as high as 25.8 per cent. This exorbitant difference between wholesale and retail prices was due to a combination of an acute shortage of trade goods with the necessity for building up stocks of grain and raw materials, requiring a redistribution of the whole stock of goods between city and country in favor of the latter. The city markets were emptied and the private trader seized the opportunity to charge high prices.

The first attempt to apply this tax had little success. It was levied whenever the private trader or industrial received a profit, the ratio of which to his business exceeded that of the preceding year. This primitive method permitted some large-scale speculators to escape, for they had made enormous profits on their business from the very beginning, and had later, under the pressure of regulative measures, reduced the rate of profits, though retaining their accumulated gains. It also caused an unjust taxation of petty trade. Therefore, a change was made to a fixed percentage limit of profits for each branch of wholesale and retail trade. Ex-

perience showed that when such fixed-percentage rates were adopted the level of non-taxable profits became higher. Before the change, for instance, a man who made more than 12 per cent was punished as a usurer; but now, in the retail trade of the Moscow gubernia, the average profit-limit is 16 per cent of the sales, 18 per cent of the sales for dry goods; and in the Briansk gubernia the limit for dry goods trade is even 23 per cent. Experience will of course help the further development of this tax and its special application to abnormally high profits. Its fiscal importance grows every year, although its absolute weight in the budget is not great.

#### E. THE TAX ON RENTS

The very existence of rent under the conditions existing in the U.S.S.R. might seem to be impossible. Given the nationalization of land and the prohibition of its free purchase and sale, it would seem that the very conception of rent would be excluded. Yet this is not so, and the law correctly formulated the conception of rent when it pointed out that the state is now the owner of land just as the former private owners used to be. In allowing private parties to use the land the state enables them to make profits, these profits varying in different places for reasons many of which do not depend on the user (such as quality of soil, proximity to markets, character of environment, etc.), differences which give rise to rent which, until the recent reform, went entirely to the benefit of the user or tenant. Through the tax on these profits or rent the state takes a return from these differential advantages and has recently begun to turn it over to the local budget funds. On the other hand, being the owner of the land, the state unquestionably has the right to charge a definite compensation for its use, just as it does for the use of forests, underground wealth, and other natural resources. We know of taxes in other countries, analogous to our rent tax, which are levied on what is called the unearned increment of value.<sup>28</sup> Such conditions as the introduction of a

<sup>28</sup> The author is confused here. An increment value land tax is a tax on the occasion of the taking or realizing of the increment, as on a sale. It is quite different from an annually recurrent tax on rent. (EDITORS.)

railroad or electric street-car line into a neighborhood, or of new city improvements, independently of any effort on the part of the owner, may enhance the value of his land. This automatic, as it were, increment of value is subject to a special tax. With us the rent tax is levied, with some exceptions, only on city property, for rural land is already subject to the agricultural tax which covers rent. All land not exempt from rent tax pays a so-called basic rent, which is the same for all land of one city or uezd district. Over and above this, a supplementary rent tax is levied which is varied, according to the quarter of the city and the character of the building. Most municipalities used to require a basic rental tax at the rate of 3 to 6 kopecks per square sazhen.<sup>24</sup> As no such things as land prices exist, rental rates are assessed according to the social class of the tenant, or renter, and the assessment of rates thus becomes more complicated. At first the limits for the supplementary rents were varied in accordance with the size of the city or town. The maximum rate for a piece of land occupied by a dwelling or an industrial undertaking was one ruble per square sazhen. At present, according to the ruling of the Soviet of People's Commissars, of June 24, 1927, the rates of the basic rent tax have been increased, the minimum being 14 kopecks and the maximum 2.96 rubles per square sazhen, cities and towns being divided into ten classes, ranging between these two limits. The rates of the supplementary rent tax are multiples of the basic rent. They have been increased several times.

The receipts from the tax on rents have thus far not been large, amounting to only about 20 million rubles, while before the war, at a rough estimate, they reached about 300 million. Many peculiarities of the social structure and the economic situation of the U.S.S.R. have, of necessity, lowered the return, although there is no permanent reason for its being as low as it is. It is sure to develop and become an

<sup>24</sup> A sazhen (or sagene) is 7 feet. A lot 100 by 100 feet would, at the maximum rate, pay \$6, but unfortunately the author does not state whether those rates are monthly or annual. (Editors.)

important resource for the local budgets. Most of it—51 per cent—comes from land used by private persons; next come local soviets with 37.8 per cent; and, lastly, state undertakings and institutions. The bulk—or 85 per cent—of the land thus taxed is under dwellings in which 80 per cent of the private families live. In area, about one-half of all taxed land, whether with or without buildings, is being used by private persons.

In view of these facts a further increase in receipts must be expected not from the users of land or the owners of buildings but from the tenants. Rent is chargeable to tenants because, when living near the center in a city, they enjoy better pavements, sewer and water facilities, and many other advantages not obtainable in the outskirts. Under a régime of free use of any land, all such advantages would have been discounted by the owners of buildings; but when, as is the case at present, rent for dwellings is regulated by law, it is the tenant who gets these advantages free. Thus the bulk of the rent tax in the future seems destined to assume the form of an increase in household rentals; and from the social point of view maintained by the Soviet government this would appear to be highly desirable.

#### F. THE INHERITANCE AND GIFTS TAX

This tax has been levied since January 1, 1923, on all persons inheriting property of a total value exceeding 1,000 rubles. Under earlier laws the right of inheritance was limited to 10,000 rubles, all in excess of this amount to go to the state. It soon became clear, however, that such a plan does not accomplish its purpose and in the end brings results inconsistent with the rest of the economic policy of the Soviet state; for the property of private owners of important trade and industrial undertakings often far exceeds 10,000 rubles, and a limitation of the right to inherit the whole of such an enterprise would mean administrative regulating of the activity of the undertaking. Such regulation would be rather purposeless, for it would be equivalent to a policy of prohibition against private capital, in large enterprises, and to that extent in contradiction to the NEP.

Therefore, in 1926 the limitations on inheritance were repealed, an action further justified by the fact that the fiscal results of the original law were unsatisfactory, the yield being only 67,000 rubles for the year 1924-1925 and 260,000 rubles for 1925-1926, and that its natural consequence was concealment of inheritance and evasion of the law. The essence of the new law, which is still in effect, is that no limitation on the amount of inheritance now exists.

Instead of taxing each individual heir's share of an inheritance, the whole estate is taxed as follows:

Up to 1,000 rubles, tax free

Over 1,000 rubles and up to 2,000 rubles, 1 per cent

Over 2,000 rubles and up to 6,000 rubles, 20 rubles on the first 2,000 rubles and 2 per cent on the balance

Over 6,000 rubles and up to 10,000 rubles, 220 rubles on the first 6,000 rubles and 8 per cent on the balance

Over 10,000 rubles and up to 40,000 rubles, 540 rubles on the first 10,000 rubles and 10 per cent on the balance

Over 40,000 rubles and up to 100,000 rubles, 3,540 rubles on the first 40,000 rubles and 25 per cent on the balance

Over 100,000 rubles and up to 200,000 rubles, 18,540 rubles on the first 100,000 rubles and 40 per cent on the balance

Over 200,000 rubles and up to 500,000 rubles, 58,540 rubles on the first 200,000 rubles and 60 per cent on the balance

Over 500,000 rubles, 238,540 rubles on the first 500,000 rubles and 90 per cent on the balance

Gifts are taxed at half the rates of the inheritance tax

The results of the new tax on inheritance became apparent in 1926-1927, when over 700,000 rubles were collected from this source. In 1927-1928 receipts amounting to 1.1 million rubles were anticipated. These amounts appear negligible, compared with similar receipts in England and the United States, but their meagerness is due to the relatively limited possibilities of private fortunes in Russia and the absence of such objects of taxation as landed estates.

#### G. MISCELLANEOUS DUTIES

Among the miscellaneous duties, the stamp tax occupies the most important place in the budget. Up to the last radical reform of the stamp tax, the law which regulated it was

extremely complicated, providing for both specific and proportional rates. Specific taxes were levied on documents irrespective of the amount involved in the transaction and varied only with the nature of the document and the class to which it was assigned in an official tariff. Proportional ad valorem taxes were levied on documents classed in another tariff, such as transfer deeds.

Stamp duties were not levied on government offices, on enterprises carried on the state budget, on communal undertakings for purposes of sanitation or public welfare, on organizations of the Communist Party, etc.

The complexity of this scheme and the number of fines it was found necessary to impose because of errors due to the multiplicity of rates (there being seven different rates for proportional duties alone) caused great discontent among the taxpayers, and resulted in demands that the tax be simplified. As the chief payers were state-owned and co-operative undertakings, their protests could not be disregarded, and the recent reform, though it does not alter the essential features of the tax, exempts practically all trading and industrial enterprises, and reaches them through a special tax on conversion of values which has been substituted. Such transactions as purchase, sale, deliveries, commissions are all exempt from stamp duties; but all other transactions involving assistance by government officials remain subject to them. The chief objects remain, as before, evidences of indebtedness, and transportation and insurance contracts. Evidences of indebtedness must be written on special government paper. The tax on conversion of values reaches industry and trade and is thus parallel to the trade-license tax. Its chief difference from the stamp taxes is that it is levied on the entire transferred value, irrespective of whether any formal contracts have been made or not, and payment is due at the close of the year. The rates of the tax on conversion of values are also less differentiated than the stamp taxes. They are 0.55 per cent for state and private undertakings, except retail business; 0.3 per cent and 0.2 per cent for co-operative business; and 1 per cent for syndicates.

The existence of a tax on conversion of values, as it largely duplicates trade licenses, was hardly justified. It had to be abolished as causing unproductive work for the fisc as well as for the taxpayers, and certain modifications and enlargements of the trade licenses were substituted for it. It therefore no longer exists; but a number of small stamp taxes have survived, which, however, play no important part in the whole system of taxation.

### III. INDIRECT TAXATION

Indirect taxation of necessity plays the dominant part in the budget of the state because of the small diffusion of property among the people and the consequent small yield of the direct taxes, the systematic crowding out of private capital, the necessity for considerable funds for the industrialization and cultural betterment of the country, and, finally, the weakness of the taxation machinery. The refusal of Europe and America to make loans to the Soviet state has also played an important part, compelling the government to resort to more difficult and less agreeable ways of providing funds. As early as the autumn of 1922, after the Soviet state had been refused loans at Geneva and the Hague, Lenin, in a conversation with Sokolnikov, said: "Better go back to selling vodka than submit to foreign capital." Nevertheless, it would be a mistake, because of the preponderance of indirect taxation, to put the budget of the U.S.S.R. in the same category with that of capitalist countries, for it must be remembered that the important question is, What is the destination of the money collected, what kind of state and whose power does it serve to support? In analyzing the budget we see that the nature of Soviet state expenditures considerably modifies the evil effects of indirect taxation. The very structure of indirect taxation, the differentiation of rates, the choice of objects of taxation, and the general policy with regard to prices on excisable commodities all reflect the class policy of the Soviet government, although in less degree than in direct taxation.

Besides, the Soviet state and the Communist Party clearly understand that indirect taxation can be tolerated

only until, on the one hand, the state-owned economic enterprises of the country—its industry, transportation, and trade—develop and improve to a much higher degree, increasing the budget receipts not derived from taxation; and, on the other hand, until the possibilities of domestic and foreign credit have improved. As these prospects are realized, the importance of indirect taxation will decrease.<sup>25</sup>

#### A. EXCISES

The most important question arising from an analysis of the Soviet system of indirect taxation is whether excises have a logical reason for existence under a system of nationalized industry and a practical monopoly by the state in numerous branches of production. Does the fact that all industrial profits belong to the state make it unnecessary to add excises to the prices of commodities as calculated by state trusts? Prices being regulated by the government, the absence of excise would result only in greater profits to the trusts, and these profits would sooner or later be accounted for and distributed by the government as it sees fit. On the other hand, the consumer does not care to know what portion of the price he pays for goods goes to the trust and what to the government as excise. These reasons, fortified by a tendency to simplify and make less costly the collection of the excises, have prompted certain Soviet economists and their adherents in industrial circles to advocate a change from direct taxation based on exterior and natural indices, such as the quantitative output of each factory, to indirect taxation based on the cost of the entire production sold.

<sup>25</sup> The "evils" of indirect taxes, when they stand alone and are not part of a general system with complementary direct taxes, are assumed by our author to be understood by the reader. As commonly set forth they are (1) inequality, because, falling on consumption and mainly on necessities, they bear heavily on those persons who have only enough to meet the bare necessities, and lightly on the well-to-do; (2) wasteful, in that they are shifted along from one seller to another and finally to the consumer, each shifting involving a cost which benefits nobody, so that the tax paid by the consumer exceeds what the government receives.

But in a perfect socialistic society where all are on an even plane of "income according to needs," the first evil cannot exist. Under such conditions, too, the significance of the second evil would depend on the cost of possible alternative methods of obtaining the public funds. (EDITORS.)



Each trust, under this project, would calculate the actual percentage of the excise to the cost of its total production and would pay a corresponding sum into the State Treasury on the entire amount of its products sold. In this way, the adherents of this theory claim, there would no longer be any necessity of special excise inspection and routine, and there might be a possibility of a greater income to the government even from those commodities which today are not subject to excise.

The point of view above is, however, incorrect for a number of reasons. Essentially, though in a very disguised form, it would revert to the period of military communism. In the first place, the theory does not give proper consideration to the fact that industry today is on a self-supporting basis and, although owned by the state, is not the state itself. By levying excises, the state fixes in advance its share in the price of a product, and being in a position to check up on production day by day it exercises a systematic and unfailing supervision over its share of industrial profits, and assures their prompt receipt throughout the year. To weaken this system would at best put the receipts due from excises in the same position as payments on profits, that is, these receipts would be due at the end of the year, and most probably the amounts in question would frequently be tied up in the business of the trusts, spent for capital investments, etc. The second objection to the proposed scheme is the loss of the advantage of levying on a strictly defined group of commodities in each branch of production, so that the government may consider the peculiarities of each commodity and differentiate and apply its excise policy to carry out its social and economic purposes. This would hardly be possible under a system of payments as advocated in that theory.

Finally, a third objection is connected with the policy of price-lowering which is being pursued by the Soviet government. By fixing the government's share of excise in the price of each individual commodity, both the state and the consumer are able to control the composition of the price and may have an insight into whatever actual factors tend

to raise the cost of production. It would be a mistake to think that because the state owns all big industry it can fix prices of commodities regardless of anything but its pleasure. Prices within the Soviet Union are influenced by world prices through the medium of imported raw materials and exported grain, timber, etc. Excessive prices would decrease consumption. Therefore, by raising or cutting down a certain excise, the state does not merely add that amount to or deduct it from the existing price, but forces the other components of the cost of production, the burdensome overhead costs, etc., to shrink or to expand. Not infrequently we hear the excise policy criticized by representatives of industry, who point out that if the excise on some commodity or other were less, its price would be lower. It is easy to see that such a policy of tax reduction would simply mean following the line of least resistance, for it would prevent the state from accumulating means vitally important for its purposes and would force it, instead, to seek definite production results.

Having explained the inevitable and economically logical nature of the existing excises under the present conditions of the Soviet state, we may now analyze the present excise situation.

In Section I, above, dealing with the transition to the NEP, we have seen how the Soviet excise system developed. The changes which have occurred since consist chiefly in the abolition of the excise on salt and the addition in 1925 of 40 per cent grain alcohol or vodka. Opposite is the list of excises now in effect and the receipts each year.

If we take into consideration the last five fiscal years only, the excise receipts will be seen to have increased five-fold. This is due to increased consumption of excisable commodities on the one hand, and to the introduction of government sales of vodka on the other. The excise rates themselves, far from increasing during the later years, have in some cases even decreased, as for instance that on kerosene; and the excise on salt, as a product of the widest consumption, the taxation of which is, therefore, socially unjust, has been completely abolished.

**EXCISE RECEIPTS**

(*Million rubles*)

Excise	1922-1923	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
On beverages (wines, alcohol, beer)....	18.7	65.0	178.6	364.2	585.0	697.0
On sugar .....	22.4	51.6	117.8	177.5	244.7	245.0
On tea and coffee...	4.8	13.9	22.0	22.7	31.5	29.5
On matches .....	5.0	9.4	15.3	21.1	21.0	25.0
On tobacco products .....	18.4	37.4	82.0	123.9	153.6	166.7
On cigarette tubes and papers .....	0.6	1.4	1.4	1.3	1.5	0.8
On perfumery and toilet articles ....	.....	.....	.....	.....	.....	8.0
On salt .....	14.3	15.4	15.9	17.6	10.0	3.0
On petroleum products .....	10.8	17.8	24.1	33.6	35.7	41.0
On candles .....	0.5	0.8	1.5	1.8	2.6	2.6
On textiles .....	7.3	26.5	46.1	72.2	100.2	109.0
On rubber footwear	0.2	1.6	3.1	5.6	16.1	23.0
Total .....	103.0	240.8	507.8	841.5	1,201.9	1,350.6

If we divide all excises into those on articles of mass consumption and those on articles of unproductive consumption, we shall see that the center of gravity of the total excise falls on the latter category:

**COLLECTIONS OF EXCISE TAXES BY CLASSES OF COMMODITIES**

(*Million rubles*)

	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
<b>A. Articles of mass consumption</b>					
Foodstuffs .....	80.9	155.7	217.8	286.2	277.5
Clothing .....	28.1	49.2	77.8	116.3	132.0
Lighting materials ..	28.0	40.9	56.5	59.3	68.6
Total for A.....	137.0	245.8	352.1	461.8	478.1
<b>B. Luxuries</b>					
Alcoholic beverages.	65.0	178.6	364.2	585.0	697.0
Tobacco products ..	38.8	83.4	125.2	155.1	167.5
Perfumery, etc. ....	.....	.....	.....	.....	8.0
Total for B.....	103.8	262.0	489.4	740.1	872.5
Total for A and B.	240.8	507.8	841.5	1,201.9	1,350.6

We may roughly summarize this table by saying that in the course of the last few years only one-third of the total excise revenue was obtained from articles of mass consumption, on which excises should be levied with extreme care; while two-thirds of the total falls on articles of the second group. Naturally, there is an element of conventionality in the foregoing classification of consumption, for the wide consumption of alcoholic beverages, especially in the cities, by factory workers, causes the latter class to be a heavy contributor to indirect taxes. This, however, leads us to the conclusion that a campaign for a more rational consumption of alcohol by workers is necessary; and in this direction a number of cultural measures have been taken.

What is the ratio of today's consumption of excisable products to their consumption in other countries and in pre-war times? We shall touch upon this in greater detail later, but a general idea of the situation can be given here:

#### CONSUMPTION OF EXCISABLE COMMODITIES

Commodity	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
Wines (million pails*)..	2.8	4.0	5.6	4.9	1.1
Alcohol (vodka)† (million pails) .....	3.0	5.3	20.7	33.5	41.8
Beer (million pails) ....	17.2	20.5	30.9	33.0	35.0
Sugar (million puds)....	22.1	39.8‡	53.7	58.6	63.0
Tea (million kilograms).	4.8	9.1	12.6	11.5	10.2
Matches (billion packages) .....	2.0	3.5	4.3	4.4	4.8
Cigarettes (billion pieces)	14.2	25.3	36.5	42.0	42.1
Salt (million puds).....	86.4	79.7	90.0	....	....
Kerosene (million puds).	22.9	33.0	46.2	55.0	57.6
Cotton textiles (million meters) .....	840.0	1,600.0	2,100.0	2,360.0	2,500.0
Wool textiles (million meters) .....	28.0	48.0	64.6	80.5	85.4
Linen and other textiles (million meters) .....	....	....	....	189.2	221.4
Rubber footwear (million pairs) .....	8.2	16.9	22.5	25.0	34.2

\* A pail (vedro) is 3.25 gallons United States measure.

† Over and above this, about 2 million pails alcohol yearly for technical purposes.

‡ Including imported sugar, 10.3 million puds.

In the course of the five years the production of commodities for mass consumption has grown two- to threefold. This is due to the exceedingly low level of the initial year when industry was only beginning to realize its possibilities of reconstruction. At the same time, however, such a rapid growth of the consumption of excisable goods shows that the excise did not appreciably hinder production and its growth. Where such a retarding influence existed, for instance, in the case of wines, of which the consumption decreased by 14 per cent, the excise has been lowered or abolished. The decreased consumption of tea is due entirely to currency problems which necessitated a curtailment of the consumption of imported goods like tea.<sup>26</sup>

However, comparison of per capita consumption before the war with today's is of much greater interest than the absolute figures. The table on page 192 provides this.

For a vast majority of commodities, the consumption of the U.S.S.R. is either above the pre-war level or else approaches it closely. This is an extremely important fact. It indicates that the standard of well-being of the masses has risen almost to that of pre-war times; on the other hand, we know how low this pre-war standard was compared with that of the foremost capitalistic countries and what a long distance the Soviet Union must still travel before it equals those countries in this respect.

Let us now analyze the excise rates. On most commodities they are nominally much higher than the pre-war ones. When, however, we take into account the general depreciation of gold and the consequent lowering of the purchasing power of the ruble, as well as the especially high prices in the U.S.S.R. due to a number of specific causes, our rates, expressed in pre-war rubles, will appear actually lower for a number of commodities than the rates which obtained under the monarchy. Another index is no less interesting, namely, the ratio of the excise rates to the prices of the goods, as shown in the table on page 193.

<sup>26</sup> That is, to use foreign credits to support the chervonets rubles.  
(EDITORS.)

COMPARATIVE TABLE OF PER CAPITA CONSUMPTION OF EXCISABLE COMMODITIES IN PRE-WAR  
RUSSIA\* IN 1913 AND IN THE U.S.S.R. IN 1922-1923 TO 1928-1929

Commodity	Absolute Numbers for 1913	Percentage Ratio to 1913						
		1922-23	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29
Wine†	0.046 pails	17.3	34.8	63.1	80.4	67.4	15.2	....
Beer	0.53 pails	12.7	26.6	27.3	44.3	45.5	44.3	43.2
Vodka, cordials, cognacs, etc.	0.66 pails	....	0.9	6.3	22.4	34.7	43.8	46.8
Yeast	91.8 grams	42.5	68.6	110.0	141.6	159.0	169.9	178.6
Sugar	8.041 kilograms	18.8	33.7	56.2	78.3	82.0	90.5	96.1
Tea	412.0 grams	6.1	9.5	18.0	26.7	24.3	25.0	25.5
Matches	23.3 packages	47.6	48.6	95.3	97.3	119.3	124.5	128.7
Cigarettes	151 pieces	69.9	73.8	127.1	177.5	189.0	203.9	209.2
Makhorka (lowest grade tobacco)	0.517 kilograms	79.2	50.8	69.8	112.6	108.5	103.6	105.2
Petroleum products:								
Benzene	0.175 kilograms	{		222.1	237.7	292.5	368.0	360.0
Kerosene	5.555 kilograms			77.1	102.3	121.5	132.6	141.7
Refined oils	1.229 kilograms			59.0	62.2	68.8	78.4	85.3
Rubber footwear	0.17 pairs	14.0	37.0	69.0	92.0	116.0	134.0	142.0
Salt	11.25 kilograms	64.3	94.5	88.7	105.7	(Free of duty)		

\* Exclusive of Transcaucasia.

† Wines with alcoholic content of 14% to 20%.

## RATIO OF EXCISE RATES TO PRICES OF COMMODITIES

Commodities	Retail price		Excise rate		Percentage of Excise to Price	
	1913 (Rbls.)	1926 (Rbls.)	1913 (Rbls.)	1926 (Rbls.)	1913	1926
Vodka, per pail.....	8.40	22.00	4.40	15.50	52.4	69.1
Beer, per pail .....	1.59	5.00	0.27	1.20	17.0	24.0
Yeast, per pound.....	0.50	0.70	0.20	0.26	40.0	37.6
Granulated sugar, per pound	0.13	0.26	0.045	0.10	33.7	38.6
Refined sugar, per pound	0.15	0.32	0.045	0.10	29.2	31.2
Tobacco, extra grade, per pound .....	6.0	7.00	2.50	3.11	41.7	44.3
Tobacco, grade 1, per pound .....	2.64	4.60	1.16	2.34	44.0	51.0
Tobacco, grade 2, per pound .....	1.84	4.00	0.80	2.25	43.5	56.0
Tobacco, grade 3-A, per pound .....	0.96	2.80	0.48	1.35	50.0	47.1
Tobacco, grade 3-B, per pound .....	0.72	2.00	0.37	0.94	51.4	47.0
Cigarettes, extra grade, per 1,000 .....	10.00	22.00	3.60	9.00	36.0	40.0
Cigarettes, grade 1, per 1,000 .....	6.00	10.80	2.50	5.20	41.7	48.1
Cigarettes, grade 2, per 1,000 .....	4.00	8.80	1.80	4.20	45.0	47.7
Cigarettes, grade 3-A, per 1,000 .....	3.00	6.00	1.40	2.45	46.7	40.8
Cigarettes, grade 3-B, per 1,000 .....	2.50	5.00	1.20	1.80	48.0	36.0
Makhorka (lowest grade to- bacco), per pound.....	0.32	0.56	0.09	0.20	28.1	35.7
Matches, per package.....	0.01	0.015	0.005	0.006	50.0	40.0
Benzene, per pud.....	5.90	5.00	0.60	1.60	10.1	32.0
Kerosene, per pud .....	2.00	2.08	0.60	0.60	30.0	29.2

This table shows that retail prices at the close of 1926 were, on the average, two and one-half times as great as in pre-war times, and, in some cases, three times; the price of benzene [used as motor fuel—TRANSLATOR] alone is lower than pre-war.

The excise rates have grown in more or less the same ratio with the exception of that on kerosene, on which the excise is the same as the pre-war nominal rate. On the

whole, then, the percentage of excise to price fluctuates around the pre-war level. We do not mean to imply that this indicates the excise burden to be at its pre-war level. The table above gives no direct answer to such a question. To find that answer we should have to investigate the distribution of excise levies as between different social classes of the population and the present-day national budget income of other countries as compared to their pre-war budgets. Not until then can we draw more or less satisfactory conclusions as to how the excise burden of today compares with the pre-war one.

For the present we are chiefly interested in the part played by the excise in the composition of prices. We must come to the conclusion that while the excise is not the chief cause of rising prices, it plays a considerable part in the make-up of the retail price for many goods. From 1926 on this situation has somewhat improved in that, as a result of the persistent price-lowering policy of the government, many prices were lower in the autumn of 1928 than in the autumn of 1926 by a small percentage. Among others, prices on excisable goods have also declined; and since there were only insignificant changes in excise rates, the ratio of excise to the price must have increased. It is obvious that the continuation of the price-lowering policy will inevitably compel the government to lower further many excise rates and so decrease their importance in the budget. Nevertheless, such a policy presupposes the possibility of compensating lower excise rates by increased consumption and by a strengthening of the other state revenues. At present the financial policy is shaped by the necessity of lowering prices through first of all improving production and trade, and any material lowering of excises is believed logical only in so far as lower prices may have been achieved, so that such decrease of excises would be sure to benefit the consumer directly.

Let us now examine more closely the most important excises.

a) *The excise on alcohol.*—Up to the autumn of 1921, the Soviet Union was said to be a “dry” country. In August 1921 the sale of wines with alcohol content up to 14 per cent was



legalized, and in the beginning of 1922 beer was added. At the beginning of 1923 the manufacture of liquors (cordials) with alcoholic content up to 20 per cent was made permissible, this content being raised to 30 per cent at the close of 1924. Finally, in the summer of 1925, the government legalized the sale of 40 per cent grain alcohol, thus re-establishing the traditional pre-war vodka.

Absolute sobriety has proved, at least for the time being, to be beyond the strength of the young Soviet state. In his time, Lenin declared that "to permit the sale of vodka means one step back to capitalism." That the government was compelled, in spite of this, to take the step was due to two facts: first, a "breach in the sobriety front" [idiom of the original—TRANSLATOR] on the part of the peasants who engaged in home production of strong liquor; and second, the difficult financial situation of the country as a result of the financial blockade and the necessity of obtaining quickly the means for feeding industry and overcoming the economic depression.

For a number of years the government waged war on peasant liquor-distilling without marked success. On the eve of the World War the whole population consumed about two-thirds of a pail<sup>27</sup> of 40 per cent grain vodka per capita yearly, the rural population alone something over half a pail, and this figure showed no tendency to decrease. The prohibition of vodka meant its absence in those regions where the prohibition was effective—it was inoperative in border districts—and an unsatisfied annual demand for 80 million pails. This demand craved satisfaction and found it in the private manufacture of a liquor which received the name of "samogon" ("self-distilled"). This household distilling came to be widely practiced during the imperialistic war, and all attempts of the administration at combating it were vain. The age-old custom proved stronger than any barriers. The government was therefore forced to make partial concessions, permitting at first 20 per cent liquors, then beer, then 30 per cent cordials. Such measures, how-

<sup>27</sup> A pail (vedro) is 3.25 gallons or 16¼ bottles, wine-measure, and two-thirds of a pail is about 11 bottles. (EDITORS.)

ever, proved mere palliatives, for these beverages, not being strong enough, met with no success among the peasants and were consumed chiefly in the cities, while the chief aim of the campaign against samogon was to exterminate it in the villages.

There are no figures as to the production of samogon. We may only roughly guess at it and conclude that at the moment when 40 per cent vodka was reintroduced, no less than 35, and perhaps 40 million pails of samogon were being distilled yearly. Samogon was made chiefly from rye and wheat flour, also from granulated sugar and dark molasses. The quantity of grain necessary to obtain one vedro of samogon is about 2.5 times what is required to produce the same quantity of vodka by industrial methods. Moreover, in the industrial manufacture of vodka potatoes are extensively used, being much cheaper than grain and yielding useful refuse, which is not the case with grain. As a result of mass production of samogon, which began to assume the character of a national calamity, something like 80 to 100 million puds of grain were taken from the resources of the state which could otherwise have been exported and exchanged for gold and foreign commodities of which the country was in great need. Besides, samogon is much more harmful to the human system than vodka and, what is worse, the members of a peasant family begin being poisoned by it from early childhood.

Also, the State Treasury was losing the alcohol excise on every pail of samogon sold, such sales naturally being secret. Samogon traders accumulated considerable fortunes and developed into a noxious social group, both economically and socially.

The combined result of all these causes was the re-establishment of government vodka sales.

In how far was this measure successful in combating samogon and what general results did it bring?

In the cities, the consumption of samogon is being markedly reduced, the price for a bottle<sup>28</sup> of vodka having

<sup>28</sup> Approximately the same size as our wine bottle. (EDITORS.)

been set at the low figure of 1 ruble 10 kopecks. But the producers of samogon, too, have adapted themselves to the new conditions and are selling a bottle of their brew of considerable strength and purity for 80 kopecks. This enables them to keep an advantageous position in the villages, although samogon is gradually being crowded out there but much more slowly than in the cities. The consumption of government vodka is distributed between city and village as follows:

Year	Percentage of Total	
	Village	City
1925-1926 .....	50.8	49.2
1926-1927 .....	53.6	46.4
1927-1928 .....	56.0	44.0

It appears that the consumption of samogon is on the decline. Absolute consumption in the villages in 1927-1928 was estimated at about 22 million pails. On the basis of the best information we may presume that the consumption of samogon is now about 15 to 18 million pails. It would be utopian to hope to eliminate samogon completely, for its cost of production is very low and in most cases it is made entirely by home methods and for home consumption. It would be enough merely to suppress production for sale, which still reaches no less than 6 to 7 million pails, consumption having declined chiefly among the city people.

As might be expected, the release of government vodka had very undesirable effects on the city population, especially the workers. The rate at which the efficiency of labor had been progressing during the reconstruction years became markedly slower. Drunkenness became very widespread. The number of intoxicated persons unable to reach home was, during 1927 in Leningrad, about 100,000, or twice that of pre-revolutionary times. In other large industrial centers the consumption of vodka has approached half of the pre-war quantity, although the total released for sale is still not more than two-fifths of that in pre-war years in the respective territories. While, as we have seen above, vodka yields a large additional income to the Treasury, it becomes at the same time a retarding factor in industry,

and this necessitates a more energetic temperance campaign, especially in industrial centers. When the vodka quota for cities for the year 1928-1929 was discussed, the government made a special ruling which fixed this quantity at 17.5 million pails, or one million less than in the preceding year. A number of special cultural and educational enterprises were created to counteract drunkenness, and at the same time it was decided to combat vigorously the samogon in villages, entrusting such measures to the revenue organs of the government.

The government alcohol monopoly is at present constituted as follows:

1. The distilling of alcohol is permitted to state as well as co-operative and private plants.

2. All alcohol, when distilled, must be surrendered to the Central Office of the State Alcohol Monopoly ("Tsentsrospirt"), which is under control of the People's Commissariat of Finance.

3. Rectification of the spirits is done by the Central Office.

4. The preparation of grain vodka, rectified spirit containing 40 per cent alcohol, is also done exclusively by the Tsentsrospirt. Alcohol exceeding 40 per cent in strength may be released only for medicinal, technical, or scientific purposes. Besides, the sale of denatured alcohol is permitted.

5. The Tsentsrospirt has charge of: (1) working out the quotas for domestic consumption and export; (2) the planning of alcohol-distilling; (3) the sale of alcohol in foreign markets.

The Tsentsrospirt has the management of all the alcohol-rectifying plants and the alcohol warehouses of the old government with their equipment and grounds. It has at its disposal a considerable retail trade machinery, about 7,000 stores, and also sells through the village co-operative stores. Before the war there were 30,000 government vodka retail stores. Payment of the excise has lately been centralized and is now made by the Tsentsrospirt office, on the basis of the quantities of alcohol, vodka, and other products released by its plants.

In order to combat samogon successfully, a further lowering of the prices of government vodka is imperative; but as the excise makes up to 70 per cent of the price and it would be unreasonable to cut down on the receipts of the Treasury, a reduction must depend on the lessening of the cost of production. The latest price fixed, in December 1927, is 21.60 rubles a pail, of which 16.40 rubles is excise. A comparison of the composition of the 1913 vodka price with the present shows the following:

ANALYSIS OF THE PRESENT AND PRE-WAR  
PRICES OF VODKA\*

	(Rubles per pail)	
	1925-1926†	1913
Production cost at plant.....	2.85	1.29
Retail cost .....	5.81	2.08
Excise .....	14.96‡	4.40
Profit .....	0.99	2.05
Sale price .....	21.76	8.53

\* According to official reports.

† Fourth quarter of year.

‡ In the fourth quarter of 1925-1926 a change of rates was made; this figure is the average.

The cost of one pail released for retail is almost three times as high as it was in 1913, indicating that the figure might be cut and thus make it possible to fight samogon more successfully. The whole government policy in this matter of alcohol revenue rests on the theory that the present rate of vodka consumption, which is less than half the pre-war one, must be considered as a maximum, and that in future, as the general financial and economic situation improves, the consumption will decline.

b) *The excise on sugar.*—The consumption of sugar in the U.S.S.R. is still quite low, though it increases with every year.

At present it averages 17 pounds per capita, nearly the pre-war figure of 19 pounds. Per capita consumption in Western Europe is considerably higher—almost 6 times as

high in England, 3.5 times in France, and 3 times in Germany. Russia's consumption is lower than that of some fifteen European countries. Especially among the peasantry is the consumption extraordinarily low: in 1926-1927 the rural population consumed a total quantity equal only to the total consumed by the cities, which means that the per capita consumption was only one-fifth of that in the cities. The gradual increase of material welfare among peasants, however, guarantees a favorable outlook for the sugar industry in the domestic market, not to mention the city consumption. Worn-out equipment and the shortage of capital raise the cost of production considerably, and this, in turn, results in high prices. In the villages sugar is still accessible to the well-to-do only, if it is not actually a luxury. Today's production of sugar is still about 30 per cent lower than in the pre-war period. Most sugar refineries (195 out of the 236 which existed before the war) are in the Ukraine. The difficulty of regaining the pre-war level of production is partly that of the sugar beet culture. Before the Revolution the big landlords' estates and the sugar factory plantations were the chief purveyors of beets, the total area of those plantations being about 3 million desiatins. Peasants supplied only about one-sixth of all the beets required. At present this ratio is almost completely inverted, so that over two-thirds of all the sugar beets are furnished by peasants. The sugar refineries try by every means in their power to increase their own beet farming, but they have so far been unable to supply more than one-fourth of their own requirements. On the other hand, peasant farming on the former estate lands has not yet reached the pre-war yield, and the problem of sugar production, therefore, becomes closely connected with that of raising the standards of peasant farming.

In spite of the low consumption of sugar at home it is being exported, owing to the necessity of holding the positions secured in Eastern markets, as well as to a shortage of foreign exchange (to support the chervonets) and, in some years, to the fact that lagging consumption at home left a surplus. In 1912 Russian sugar exports were 31 mil-

lion puds. At present they are about 7 million puds, but none is being exported now to European countries. The pre-war exports of sugar were forced into foreign markets. By raising prices at home, the export prices could be made low enough to compete with foreign sugar. Russian sugar cost much less in England than it did in the Ukraine, near the plants which produced it. There is no indication that the U.S.S.R. does not intend to export sugar to Western Europe. Natural conditions favorable to the industry, such as proximity to coal mines, an adequate labor supply, fertile black soil, which permits the expansion of beet farming, coupled with a great demand for sugar in many foreign countries, such for instance as England, Italy, Sweden, and others, will inevitably stimulate further exports. Such an expansion abroad is a prime condition of lower prices at home. At present the price is twice that of pre-war years, while all over the world the price is coming down to the pre-war level. It must, however, be remembered that in Russia pre-war prices of sugar were higher than in other countries. An analysis of today's price of sugar versus the pre-war figure shows the following:

**COST OF GRANULATED SUGAR**

	Before the War (Rubles)	1927 (Rubles)
Cost of production at factory, per pud*..	1.86	3.77
Additions .....	1.97	2.26
Excise .....	1.75	3.97
	<hr/>	<hr/>
Retail price .....	5.58	10.00

\* A pud is 40 Russian or 36 English pounds. Ten rubles a pud makes the price equal to 14.5 cents a pound in United States money. (EDITORS.)

The excise on sugar has grown to more than twice its former figure; the cost of production is exactly twice as high as before; and there is, besides, an increase, though relatively insignificant, in the production and trade overhead costs. The very important place occupied by the sugar excise in the state budget dictates the greatest caution in low-

ering it; but a cutting down is obviously inevitable in the near future, if sugar prices are to be lowered. The possibility of cutting production costs is not great, owing to the high prices of the raw materials which make up more than half of the total production cost. Lowering production costs consequently will not only call for serious effort but also will require a long period of time.

The details of the sugar excise are as follows: the finished product, domestic as well as imported, is charged at the rate of 3.97 rubles per pud or 24 kopecks per kilogram. Terms of payment are three months for state and co-operative refineries and seven days for private ones, counting from the day the product is released. No excise is levied on sugar exported abroad; and, as an offset for transportation costs, a deduction of 1.5 per cent is allowed on the quantities stated in the accompanying documents. The management of the sugar excise is centralized. It is assessed at the place of production but paid to the Treasury by the Sugar Trust, which includes nearly all the sugar plants. The manufacture and export of sugar year by year has been as follows:

#### MANUFACTURE AND EXPORT OF SUGAR

(Million puds)

	1922-1923	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
Output .....	12.1	22.1	39.8*	53.7	58.6	63.0
Export .....	0.2	3.7	1.8	3.1	7.5	7.0

\* Including imported sugar, 10.3 million puds.

c) *The excise on tea.*—Excise on tea exists in only very few countries (France, for example). In the U.S.S.R. there is an excise, as well as a customs duty, on imported tea. As a general principle, it must be recognized that the excise on tea, levied over and above customs duties, is too burdensome and serves little purpose. Indeed, the base price of tea as printed on the package is for different grades, 10, 6.8, and 5.2 rubles per kilogram, while the combined share of the excise and customs duty in each of these prices is, respectively, 4.75, 3.65, and 2.92 rubles, or about half the sale price.

The importance of tea and tea rooms as a help in com-



bating alcoholism is very great, and it is one of the problems of the Soviet government to force an increase in tea consumption. As a matter of fact, however, the consumption has of late years not only failed to increase but has actually fallen year by year.<sup>29</sup> Before the war the consumption was about one pound per capita, and was, like the consumption of sugar, below that of other countries. Today's consumption is not more than 20 per cent of the pre-war figure.

The desirability of encouraging the use of tea and the shortage of foreign currency credits with which to import it suggest the growing of tea within the country. In Transcaucasia conditions are very favorable for this purpose, and the varieties grown are no poorer in quality than the Ceylon teas. The total area suitable is about 50,000 hectares, with a possible yield of 15 to 30 million kilograms. Plans are being made to expand tea plantations in the next five years to 25,000 hectares.

Highly desirable as it is to cut down the cost of tea, abolition of the tea excise in the near future is hardly consistent with state purposes. Given the shortage of tea in the country, a great drop in its price would lead only to speculation and to big profits for the private middleman. The lowering of the tea excise should therefore be placed in close dependence on increased supply, and when the market becomes saturated the excise should be entirely abolished. It should also be taken into account that the customs duty on tea is the same on all grades, while excises are differentiated and are much higher on the better grades used by well-to-do people.

The details of the tea excise are the following: all imported tea, black, green, loose, or brick, pays excise duty. The rate is on extra grade loose tea, 2.75 rubles a kilogram; first grade, 1.65 rubles a kilogram; second grade, 92 kopecks; green tea, 1 ruble; brick tea, 74 kopecks. Payment of excise is certified by excise stamps across the packages, and is payable two months after release of the tea from the packing plant.

<sup>29</sup> Well it might at \$2.35 to \$1.20 a pound United States money.  
(EDITORS.)

d) *The excise on tobacco products and matches.* — A tobacco monopoly does not exist in the U.S.S.R., the excise system in operation being closely akin to that of the United States, only more unwieldy. The rapidly growing consumption of tobacco has already exceeded the pre-war rate of 0.28 of a pound per capita per annum in 1913<sup>30</sup> by 20 per cent on tobacco in bulk, and by 100 per cent on cigarettes, the pre-war consumption of the latter being 151 cigarettes per capita yearly, while according to the budget of 1926–1927 this figure is 287. The tobacco industry has recovered quickly from the civil war ravages and is at present far above its pre-war level. The area under tobacco exceeds the pre-war by 30 per cent, being about 38,000 desiatins, and the average crop is 2.5 million puds, which exceeds the pre-war figure by 20 per cent. Natural conditions are quite favorable for tobacco, especially in the south of the Union—Crimea, Transcaucasus, and Kuban. The high quality of Russian tobacco promises a possibility of considerable exports to France, Belgium, and Germany. Pre-war exports did not exceed 800,000 puds. At present 39 state tobacco factories and some 30 private ones are in operation, the latter, however, being very small and their output less than 5 per cent of the total. The main features of the existing tobacco excise system are as follows:

#### TOBACCO PRICES AND EXCISE RATES\*

Bulk Tobacco	Limit Retail Price (per Kilogram)	Excise Rate (per Kilogram)
Extra grade .....	Unlimited	9.50 rubles
Grade 1-A .....	11.40 rubles	6.00 rubles
Grade 1-B .....	9.60 rubles	5.50 rubles
Grade 2-A .....	6.50 rubles	3.50 rubles
Grade 2-B .....	5.00 rubles	2.60 rubles
Grade 3 .....	3.30 rubles	1.40 rubles

\* The data in this table cannot be reconciled with the table on p. 193 because the classification has been changed.

<sup>30</sup> The figures here do not agree with those in the table on p. 192 of this chapter. Possibly the explanation lies in the fact that the table on p. 192 refers to makhorka alone and those here may be exclusive of that and refer only to the better grades. (EDITORS.)

## CIGARETTE PRICES AND EXCISE RATES

Cigarettes	Maximum Retail Price	Excise Rate per 1,000*
Extra grade† .....	Unlimited	9.00 rubles
Grade 1-A .....	10.00 rubles	5.20 rubles
Grade 1-B .....	8.20 rubles	4.20 rubles
Grade 2-A .....	5.40 rubles	2.45 rubles
Grade 2-B .....	4.30 rubles	1.80 rubles
Grade 3 .....	3.10 rubles	1.00 rubles

\* A minimum limit weight being established for one thousand of each grade.

† The classification is different from that in the table on p. 193.

All tobacco products, as shown in the table above, bulk as well as cigarettes, are divided into six classes. Maximum retail prices are fixed for the five lower grades while for the first grade, prices are left free. Excise rates differ for each grade.

In contrast to pre-war usage, when excise rates were lower on higher class tobaccos and higher for the lower grades, today's tobacco excise has a structure consistent with the general policy of the government. The lowest grade pays the lowest excise. The medium grade, 2-A, is the most extensively used; it goes into the manufacture of two-thirds of all the cigarettes.

The accounting and control of tobacco production begins at the plantation and accompanies the product along each stage to the release of the finished product from the factory. The excise is payable for state factories in four months from the day of release, and for private enterprises one month.

The excise on matches is 6 rubles per case (of 1,000 packages) or 0.6 kopecks per package, which, with the retail price of a package of 1.5 kopecks, amounts to 40 per cent. Before the war one package of matches cost 1 kopeck, the excise being one-half kopeck. The consumption of matches has at present passed its pre-war level of 23 packages per capita,<sup>31</sup> but it is lower than that of Western Europe and is especially low in the villages.

e) *The excise on textiles.*—The excise on textiles has

<sup>31</sup> The table on p. 192 shows an increase over pre-war use of some 29 per cent. (EDITORS.)

been in effect since 1923. Japan alone has a similar one. There are, however, special difficulties which make it improbable that the present form will be the final one. The greatest and most fundamental problem is the determination of the basis of taxation, i.e., whether to tax the yarn or the finished fabric. In either case the system will be imperfect, but from the standpoint of fiscal technique the taxation of the yarn is preferable. Under the system now operative in the U.S.S.R., cotton, linen, and wool yarn are taxed. The silk industry is an exception to this rule, as only finished silk fabrics are taxed. Herein lies the difference between this and the Japanese system, which taxes finished silk textiles in accordance with their cost of production. The weaknesses of this excise are: the interval between the levying of excise and the sale of the finished article; the difficulty of establishing progressive scales of taxation, that is, of defining the kinds of textiles the use of which is a prime necessity and cannot be considered as an indication of greater financial affluence, etc. Some of these drawbacks are of considerable importance, others are less so. Nevertheless, budget purposes are the controlling factor in this matter, for it would not be an easy matter just now to obtain 100 million rubles from any other source. The present problem is so to construct the excise as to alleviate the above-mentioned defects as much as possible, for the rate of growth of the textile industry gives this tax ever increasing importance in the state budget.

The ratio of the excise to the retail price is very small, being for the cotton industry as a whole, only 5.3 per cent of the production cost, varying between 5 and 10 per cent for various kinds of yarn in the woollen industry, and averaging 6 per cent on linens and somewhat over 8 per cent on silks. These figures can hardly make the excise burdensome. It is also an important fact that the excise increases considerably for the higher grades of yarn, for, admittedly, these grades are used by people who are better off and who demand more expensive fabrics; and the excise thus fulfills a social regulative function. It must be admitted that there is no close and direct connection between the grade of

yarn and the cost of the finished fabric, but there is some connection, and the aim of regulating prices is achieved to a certain extent. Finally, the long interval between the time of levying the excise and the moment of sale of the finished article is compensated for by the convenient payment terms allowed the industry.

Some serious objections are raised against taxing linen and jute yarn. Complete exemption of these is being urged. We must recognize that some of the reasons for such a demand are well founded. The government takes a large portion of all the available linen yarn for the army and for other public uses. There is not sufficient yarn left to keep the factories busy, and sowings of flax should be encouraged for this purpose as well as to stimulate export. By sacrificing the excise, the government would be in a position to pay the peasant a better price for his flax, load the factories to capacity, and export the product. Finally, from the standpoint of uniformity of burden for the cotton and linen industry, a complete abolition, or at least a partial reduction of the excise on the over-taxed linen yarn is desirable. The general economic interests of the state demand greater protection for linen as compared to cotton, for cotton manufacture requires enormous expenditures in gold for the importation of the raw material,<sup>32</sup> while flax could be freely cultivated in many more districts than cultivate it at present.

<sup>32</sup> When considering foreign trade the soviets are intent on accumulating credits in foreign financial centers. This is of vital necessity to them for two main reasons. The first is that such credits are the chief dependence for support of the parity of the chervonets ruble. The second is that such credits are necessary for the purchase of foreign machinery and raw materials required in building up Russian industries for the support of the workers, "proletarians," who rule the country politically. While in many other countries "protection" for manufactures is sought by excluding foreign products, Russia finds the way to the same end by increasing its exports.

Export (e.g., grain, sugar, lumber, petroleum) is sometimes promoted even at prices involving an apparent loss, so paramount is the importance of foreign credits. In the case of cotton, cited in the text, the argument assumes that the finished product would find no market abroad in face of existing competition, and that the use of cotton fabrics at home curtails the accumulation of credits abroad by the amount spent on raw cotton. The policy has a political-social purpose rather than any economic basis. (EDITORS.)

The technique of the textile excise is as follows. As mentioned above, the objects are linen, hemp, jute, cotton, artificial silk and wool yarns, silk and silk mixed fabrics, imported yarns (exclusive of silk), imported fabrics, and articles made of fabrics. Homemade peasant yarn is exempt. The taxable yarn is accounted for as produced and taken off the spindles, all of its further movements being recorded in a special accompanying document giving number, weight, etc. The excise is then assessed when the yarn, or rather the fabric, is released from the mill. The excise is payable in three months for state and co-operative mills and in fifteen days for private ones; if excisable yarns or fabrics are exported, the excise is remitted.

The bulk of the textile exports consists in cotton fabrics amounting to some 20 to 30 million rubles' worth yearly.

f) *The excise on petroleum products.*—The petroleum industry, including raw and finished products, is now ahead of its 1913 level, as may be seen from the following figures:

#### PETROLEUM PRODUCTS

(Million puds)<sup>33</sup>

	1913	1924-25	1925-26	1926-27
Production of raw petroleum . . . . .	560.8	432.1	518.2	620.6
Finished products . . . . .	394.4	298.0	346.4	.....

Not only is the absolute output increasing, but Russia's share in the world's production is gradually growing. In 1924 the percentage was 4.5 per cent of the world's total, 4.9 per cent in 1925; and 5.5 per cent in 1926. Next to Venezuela, the Soviet Union has shown the most rapid progress, but there still remains a long road to travel before the level of Russian oil exports of 1913 in proportion to world production is regained. Then it was 17.7 per cent of world

<sup>33</sup> In American practice petroleum is measured by the barrel, not by weight. Owing to the great variations in the gravity of oil, no exact comparison of the two measures is possible. An oil field barrel is 42 gallons of conventional average specific gravity .878. Very roughly, then, a barrel would be 8.5 puds. And the Russian production as reported for 1926-1927, at 620,000,000 puds, would be approximately 73,000,000 barrels. In 1927 the United States oil fields produced 900,000,000 barrels. (EDITORS.)

production. This, however, does not mean that petroleum exports, in absolute quantity, have fallen off, for, as the following table shows, it now exceeds the pre-war figure.

PETROLEUM EXPORTS

	1913 (Thou- sand Puds)	Per- centage	1924-25 (Thou- sand Puds)	Per- centage	1925-26 (Thou- sand Puds)	Per- centage
Kerosene* . . . . .	26,342	47.3	27,380	33.0	26,571	29.8
Benzene* . . . . .	9,288	16.7	16,510	20.0	22,495	25.2
Mazut . . . . .	2,396	4.3	24,141	29.1	21,680	24.3
Crude oil . . . . .	...	...	3,840	4.6	7,063	8.0
Other petroleum products . . . . .	17,664	31.7	11,074	13.3	11,316	12.7
Total . . . . .	55,690	100.0	82,945	100.0	89,125	100

\* Kerosene, illuminating oil; benzene, the lighter products called in the United States gasoline, naphtha, and benzene; mazut, residual fuel oil. (EDITORS.)

At present exports have reached nearly double the pre-war amounts, but during the years of the World War and the Russian Revolution the process of crowding Russia off the world's markets, which had begun long before, went very far. A number of markets were lost, and to regain them a long period of strenuous effort and technical improvement will be required.

This rapid growth of the petroleum industry makes it an important budget item, chiefly through the excise on kerosene. The well-known darkness—in the literal sense of the word—of the Russian village; the negligible consumption of kerosene, which is at present about 8 pounds<sup>34</sup> per capita and below the pre-war level; and the urgency of eliminating rural illiteracy (a task requiring good lighting), all these demand a very cautious attitude in the matter of excise, and such a tax cannot be said to be popular in the U.S.S.R. It must be remembered, however, that kerosene is perhaps the

<sup>34</sup> The table on p. 192, above, shows a per capita consumption in 1913 of 5.555 kilograms, or some 13 pounds, and an increase of 30 per cent in 1927-1928. It is possible that the statement here refers only to the consumption in villages. (EDITORS.)

only article in Russia, which, in the present currency, costs in general the same as it did before the war and in many districts even less. This makes the excise far less odious than it might be—the more so because the weight of petroleum products in the index of average wholesale prices throughout the U.S.S.R. is 3.8 per cent. Consumption is growing and the petroleum industry has difficulty in keeping pace with it.

The details of the excise on petroleum products are as follows:<sup>35</sup>

1. Excise on benzene, 1.60 rubles per pud or 10 kopecks per kilogram.
2. On cylinder oils and lubricating oils, 80 kopecks per pud or 5 kopecks per kilogram.
3. On kerosene, 60 kopecks per pud, or 3.65 rubles per 100 kilograms.

The excise is assessed at the moment of the release from the plant, payment to be made to the central government by the management of the petroleum syndicate which collects from all the basic petroleum trusts. It is not levied on exported petroleum products. Lately the expediency of the system of remitting the excise on the exported article has been questioned, and there has been proposed, instead, a system of such subventions as may be needed to encourage exports or to cover export losses, to be paid out of a special fund allocated in the budget.

The remaining excises form no important part in the budget, and it is unnecessary to dwell on them in detail. It need only be said that the excise on salt which existed until lately, has now been abolished, as being the least equitable socially, and the one affecting most heavily the poorer strata of people in both city and village.

<sup>35</sup> The translation here is uncertain, partly, owing to the absence of uniformity in the terminology relating to petroleum products. We have made a guess that the tariff of excises would make a class each of gasolines (for gas engines), lubricants, and lighting oils. No mention is made at this point in the original manuscript of fuel oils, although heavy fuel oil (mazut) is elsewhere mentioned. The second class is the one most uncertain in the translation. (EDITORS.)



## B. THE CUSTOMS REVENUES

The government foreign trade monopoly operative in the U.S.S.R. lends to customs duties a somewhat peculiar character. The monopoly is such a mighty instrument in the solving of many economic problems that the rôle of customs duties themselves is, comparatively speaking, a secondary one. Under the régime of free commercial exchange with foreign countries practiced by other states, it is the size of import duties which plays the decisive part by creating protective barriers against foreign competition; but under conditions existing in the U.S.S.R. this problem is much more radically solved by the existence of an all-comprehensive, fixed plan of imports and exports in which the quantities and kinds to be imported by each organization during the coming year are fixed and financed in advance. This regulating plan takes the place almost wholly of the protective function of the customs which is so prominent in all capitalist countries. The customs system serves, as it were, to complete the state foreign trade monopoly in those cases not reached by direct regulation through licenses, such, for instance, as trade with Oriental countries, trade by means of the parcel post, etc. It would be a mistake, however, to think that in regulated foreign trade the rate of customs duties is determined solely by fiscal considerations. Under the "home-accounting," or self-supporting, régime, each government trust or other economic organization wishing to import this or that commodity figures in advance the amount of duty it would have to pay. The enormous difference between domestic and world market prices makes the importation of cheap foreign goods and their disposal at home at higher prices a very tempting enterprise. If the customs duties are low, this tendency to import is stronger, and with it increases the pressure exercised by the economic organizations on the government organs regulating imports. Instead of ordering machinery in a Soviet shop where it costs more, many think it preferable to order it abroad. Then begins a frantic search for foreign currency wherewith to pay for the goods ordered, petitions for import permits, etc. In these cases customs duties have a restraining effect,

equalizing the difference between domestic and foreign prices and stimulating home production. At the same time the government is in a position, through its customs duties and its central organs to realize quickly the profits accruing from this difference in prices. Prices of industrial goods being at least twice as high in the U.S.S.R. as in Western Europe or in America, a considerable profit thus accrues from the imports, the total value of which reaches several hundred million rubles. We shall see below what the composition of Soviet imports from abroad is. Here we need only mention that the bulk of the imports consists of industrial equipment and raw materials on which it is not always advisable to impose high duties, for in many cases this would cause a rise in prices of the finished goods. This puts a limit to customs revenues; yet the latter grow year by year, and now are approaching a quarter of a billion rubles. This growth is caused by the increase in foreign trade.

### RUSSIA'S FOREIGN TRADE

(Million rubles)

Year	Exports		Imports		Balance*	
	Today's Prices	Pre-war Prices	Today's Prices	Pre-war Prices	Today's Prices	Pre-war Prices
1913 .....	...	1,520	...	1,374	...	...
1923-1924 .....	522	369	439	233	+ 83	+136
1924-1925 .....	575	365	724	415	-149	- 50
1925-1926 .....	676	464	756	464	- 80	...
1926-1927 .....	770	558	713	497	+ 57	+ 61
1927-1928† .....	...	...	886	...	...	...

\* Exports indicated by +; imports by —.

† According to preliminary data.

### FOREIGN TRADE EXPORTS AND IMPORTS COMBINED AND DUTIES\*

	Total Exports and Imports	Customs Duties Receipts
1913 (in pre-war rubles) .....	2,894	353.0
1923-1924 .....	961	67.4
1924-1925 .....	1,299	101.7
1925-1926 .....	1,432	150.0
1926-1927 .....	1,483	190.0
1927-1928† .....	...	225.0

\* At today's prices in million rubles.

† According to preliminary data.

The figures still lag behind the pre-war ones and point to the insufficiency of the Union's economic connections with the outside world. The general economic policy of the U.S.S.R. is to strengthen these connections and foster imports and exports. Yet the intention is far from any desire to re-establish the pre-war foreign trade in its old forms. It is well known that pre-war exports were based on an extremely low standard of living of the masses, especially of the peasantry, who were compelled by unbearable taxes to sell their produce and thus provide goods for export. Before the war, agricultural produce made up nearly 70 per cent of the total exports, while industrial goods (manufactured goods, oil, etc.) accounted for only about 30 per cent. At present there is a somewhat different tendency, as may be seen from these figures:

## COMPARISON OF AGRICULTURE AND INDUSTRIAL EXPORTS

1925-1926		1926-1927	
Value (Million Rubles)	Percentage	Value (Million Rubles)	Percentage
Agricultural exports...404	59.6	439	57.1
Industrial exports....272	40.4	331	42.9

The shifting of the center of gravity of export trade toward industrial goods is only partially due to the larger exports of these goods as compared with pre-war times. The change lies in the decline of grain exports, which are only about 20 per cent of pre-war. The Revolution brought about a great increase in peasant consumption not only of bread, but of other agricultural produce as well, such as butter, eggs, etc. The city population has also begun to use commodities which were formerly exported. Another factor is the shortage of manufactured goods, which makes the peasant very cautious in selling his produce in the market, for he is unable to buy in exchange a sufficient supply of the industrial goods that he desires. High prices of manufactured goods and comparatively low prices on agricultural produce have also had their effect, for the situation is clearly disadvantageous to the peasant. Pursuing a policy of systematically reducing the prices of industrial goods, the Soviet

government is trying thereby to alleviate the effects of this divergence between agricultural and industrial prices; it is not always successful, however, for the absolute shortage of goods raises the prices and the regulating action of the government cannot always counteract this tendency.

All these factors hinder the development of agricultural exports and make it necessary for the government to force industrial exports. Thus the agricultural portion of the 1926-1927 exports increased only 8.9 per cent as against the preceding year, while the industrial portion increased 21.3 per cent. In the domain of imports, also, considerable changes have occurred. In consequence of the policy of industrializing the country and of radically curtailing consumption imports in favor of imports of industrial equipment, the ratio between these has changed as follows:

#### INDUSTRIAL AND AGRICULTURAL IMPORTS COMPARED

Year	Industrial Imports		Consumption Imports		All Others	Total
	(Million rubles)	Per-centage	(Million rubles)	Per-centage	(Million rubles)	
1924-1925 . . . . .	470.9	65.1	240.3	33.2	12.1	723.3
1925-1926 . . . . .	590.0	78.1	153.4	20.3	12.3	755.7
1926-1927 . . . . .	607.7	85.3	82.8	11.6	22.0	712.5

Before the war industrial equipment did not constitute even one-half of the total imports.

The changed nature of the export and import trade has had the following influence on the composition of customs revenues:

#### COMPOSITION OF CUSTOMS REVENUES

	1913 %	1923-1924 %	1924-1925 %	1925-1926 %	1926-1927 %
Import duty . . . . .	98.4	82.7	90.8	94.1	96.5
Export duty . . . . .	0.1	14.7	6.5	3.0	1.4
Various duties . . . . .	1.5	2.6	2.7	2.9	2.1
	<hr/> 100.0	<hr/> 100.0	<hr/> 100.0	<hr/> 100.0	<hr/> 100.0

Although the share of import duties is smaller than in pre-war years, yet they contribute, as before, most of the

customs revenues. We should therefore examine in greater detail the kinds of goods imported and the distribution of the revenue between them. The basic groups of imports are:

VALUE OF IMPORTS

(In million rubles at import values)

Commodities	1924-1925	1925-1926	1926-1927
Industrial equipment .....	71.3	107.5	150.4
Raw and semi-manufactured materials, total .....	356.0	418.0	420.1
Cotton .....	133.8	117.7	131.5
Wool .....	47.4	41.4	51.1
Raw hides .....	16.7	24.8	38.6
Precious metals .....	18.7	29.5	45.4
Other metals .....	3.7	9.3	11.2
Paper .....	21.9	29.2	18.4
Dyes .....	19.3	16.7	11.0
Tanning materials ...	8.8	11.4	12.2
Leather .....	17.2	21.8	7.5
Agricultural imports .....	41.7	59.4	31.5
Including machinery.	32.2	48.4	23.7
All other industrial imports..	1.9	5.1	5.7
<hr/> Total industrial imports.	<hr/> 470.9	<hr/> 590.0	<hr/> 607.7
Food supplies .....	204.5	70.4	64.2
Articles for personal use.....	35.8	83.0	18.6
<hr/> Total .....	<hr/> 240.3	<hr/> 153.4	<hr/> 82.8
<hr/> Grand total .....	<hr/> 711.2	<hr/> 743.4	<hr/> 690.5

The industrial and consumption portions of the imports show divergent tendencies, the former growing rapidly and the latter decreasing.

Given the general stability of the imports, and the industrialization policy, such a result is very natural. It was only in 1924-1925, a year of very deficient crops, that the grain and sugar imports were considerable. As soon as the emergency was over, consumption imports again decreased sharply.

The importance of the separate items of import in the customs revenues appears on the following page.

**CUSTOMS REVENUES, BY CLASSES OF COMMODITIES**

Class	Ratio in the Total Customs Revenues 1926-1927
Equipment .....	25.3 per cent
Raw and semi-manufactured materials	50.8 per cent
Foodstuffs .....	17.4 per cent
All others .....	6.5 per cent
<hr/>	
Total .....	100.0 per cent

The industrial imports yield three-fourths of all the customs revenue, which is a natural consequence of the above-mentioned conditions.

The shifting of the imports to the industrial side can be clearly observed from a comparison of the basic imports in 1913 and in 1926-1927.

**COMPARISON OF PRINCIPAL IMPORTS, 1913 AND 1926-1927**

Commodities	Value of Imports in Millions of Rubles		Ratio to Total Imports in Percentages	
	1913*	1926-1927	1913	1926-1927
Industrial and transportation equipment .....	177.0	150.4	12.9	21.1
Raw and semi-manufactured materials and goods.....	585.0	420.1	42.6	58.9
Agricultural materials and goods .....	68.0	31.5	4.9	4.4
Fuel .....	91.0	5.7	6.6	0.8
<hr/>		<hr/>	<hr/>	<hr/>
Total .....	921.0		67.3	85.2
Articles of mass consumption.	305.0	82.8	22.2	11.6
Articles of cultural use, hygi- ene, luxuries, etc.....	148.0	22.5	10.8	3.2
<hr/>		<hr/>	<hr/>	<hr/>
Total .....	453.0		33.0	14.8
<hr/>		<hr/>	<hr/>	<hr/>
Grand total .....	1,374.0		100.0	100.0

\* These figures are for the entire area of pre-war Russia, and should be reduced by 20 per cent for comparison with today's figures.

By strict economy and the curtailment of all consumption expenditures the government has succeeded in supply-

ing the chief requirements of industry and increasing considerably the proportion of industrial commodities, although the imports are but a little over half the pre-war imports.

How high are the import duties? To answer this question, we may either compare the price of each commodity with its customs duty rate, or compare all import duties collected with the total value of the imports. The first method, however, gives an exaggerated impression of the weight of import duties, for in practice complete or partial remission is given to whole classes of goods and also in many individual cases. Such remissions have amounted to over 87 million rubles in duties, as may be seen from this table:

COLLECTED AND REMITTED DUTIES

Groups of Commodities	1924-1925			1925-1926		
	Full Duty*	De Facto Levy*	Percent- age Taxed	Full Duty*	De Facto Levy*	Percent- age Taxed
Foodstuffs and live animals .....	67.4	18.9	28	31.0	26.0	84
Animal products and manufactures	5.5	5.1	93	7.9	5.1	64
Timber, etc. ....	0.5	0.4	80	0.9	0.8	85
Ceramic materials and manufactures	0.7	0.6	92	1.5	1.5	100
Fuel .....	1.7	1.6	93	3.3	2.5	77
Chemical materials and manufactures	19.6	17.7	90	17.2	17.0	99
Metal ores and man- ufactures .....	25.4	20.2	80	45.9	40.9	90
Stationery and printed matter...	21.1	18.7	89	26.3	22.6	86
Yarn and textiles ..	28.5	4.5	16	82.9	14.0	17
Clothing and other dry goods .....	1.5	1.1	71	4.2	3.6	86
<b>Total .....</b>	<b>171.9</b>	<b>88.8</b>	<b>52</b>	<b>221.1</b>	<b>134.0</b>	<b>61</b>

\* In million rubles, round numbers.

A change, however, was made in 1926-1927, as a result of which the tax remissions have since fallen to only 5.6

per cent. Of the total remissions in 1925-1926 (87.1 million rubles in duties), 80 per cent (or 68.9 millions) fell on group 9, which in practice paid only a negligible duty. Obviously, a simple comparison of customs duties with prices gives a false picture.

If we use the second method, we must compare import duties, not with the total imports, but with that portion on which duty was collected. In pre-war years 95 per cent of all imports paid duty, while now the tariff, reflecting as it does the general policies of the Soviet state, permits the free importation of a large number of commodities and only 70 per cent of all imports are dutiable, and when we take into account the partial remissions, which, as the table shows, are quite extensive, the number of taxed imports is still less. The actual burden appears as follows:

#### RATE OF IMPORT DUTIES COLLECTED ON EUROPEAN FRONTIER

Years	Percentage of Value of All Imports	Percentage of Value of All Goods Taxed
1908-1912 .....	31.3	33.0
1924-1925 .....	13.8	20.7
1925-1926 .....	19.9	28.1
1926-1927 .....	28.9	32.5

On the whole, the burden on those imports which pay duty closely approximates the pre-war figure, the rate being about 33 per cent. Import rates on the various classes of commodities are as follows:

#### CUSTOMS DUTY RATES ON CLASSES OF COMMODITIES

Classes	Percentage of Duties in 1926-1927
Articles of personal use.....	63.8
Foodstuffs .....	54.8
Fuels .....	38.0
Equipment for industry .....	33.0
Articles for cultural purposes .....	28.3
Raw and semi-manufactured materials.....	22.3
Materials and finished goods for transportation..	15.9
Agricultural materials and manufactures.....	5.7



In calculating the percentages we have compared the duties actually collected with the value of the total imports in each class. The table shows conclusively that the customs policy faithfully reflects the economic principles of the state in taxing heavily articles of consumption and easing the pressure on industrial equipment.

Export duties play a small part in the customs revenue, though larger than before the war. They were first introduced in the Soviet Union in 1922, when they embraced many kinds of merchandise and were so constructed as to reach the profits accruing to exporters because of depreciating currency. The monetary reform and the introduction of stable currency changed the situation, and in 1924 the tariff was reconstructed. The number of commodities subject to export duty was reduced to 18; caviar, meat, live animals, casings (for sausage), horsehair, bristles, down and feathers, bone fertilizer, raw hides, furs, timber, santonin, scrap rubber, rags, flax, silk, and wool. Unfavorable export conditions in the autumn of 1925, connected with declining prices in the world market, compelled a further revision. It was made on the following basis: (1) export duty was levied first of all on those commodities in which the U.S.S.R. had a quasi monopoly in the world market, such as santonin, young deer horns, samshit (a very hard Caucasian wood commonly called box wood, *Buxus sempervirens*), other hard woods as tiss (*Taxus baccata* or yew) and bakaut (*Guaiacum officinale*, a hard wood used for small implements), and some furs; (2) on commodities the foreign prices of which were high and therefore promised considerable profit to the exporter, as, for instance, black caviar; (3) on commodities of which Russian industry or other branches of the country's activity stood in need and the export of which it was for that reason desirable to prevent. In individual cases, other motives also came in, such as nationalizing export trade, etc.

As a result the number of taxed items was reduced to only five, and that of prohibited items from twelve to seven.

The next table shows the chief features of export trade.

## EXPORTS IN MILLION RUBLES AT TODAY'S PRICES

	1924-1925	1925-1926	1926-1927
Foodstuffs, total .....	174.0	289.4	358.0
All cereal products....	103.0	198.4	234.0
Butter .....	27.5	30.9	34.2
Eggs .....	25.7	22.6	29.0
Sugar .....	14.0	19.0	31.2
Raw and semi-manufactured materials, total .....	382.0	354.0	370.7
Timber .....	72.8	58.2	79.8
Flax and tow.....	52.4	45.5	20.4
Furs .....	67.8	72.0	86.1
Petroleum .....	66.6	76.0	89.2
Live animals .....	2.4	2.8	3.1
Manufactures .....	16.9	30.3	38.7
<b>Total .....</b>	<b>575.3</b>	<b>676.5</b>	<b>770.5</b>

Comparison of the same classes with pre-war figures shows:

## VALUE OF EXPORTS IN MILLION PRE-WAR RUBLES

	1913	1924-1925	1925-1926	1926-1927
Foodstuffs .....	879	116	211	251
Raw and semi-manufactured materials .....	522	234	237	277
Animal products .....	34	3	4	4
Manufactures .....	85	12	18	26
<b>Total .....</b>	<b>1,520</b>	<b>365</b>	<b>470</b>	<b>558</b>

Reducing the pre-war figures by about 20 per cent to allow for the loss in territory as the result of the war, we get the following comparison of present and pre-war exports:

1924-1925 .....	28 per cent of the pre-war exports <sup>36</sup>
1925-1926 .....	36 per cent of the pre-war exports
1926-1927 .....	43 per cent of the pre-war exports

<sup>36</sup> It is obvious that to obtain these percentages pre-war exports were estimated at 1,300 millions; but 80 per cent of 1,520 is 1,216. Corrected, the percentages are 30, 38.7 and 45.9 per cent. (EDITORS.)

The low level of exports, combined with the small number of items taxed, results in a small revenue from this source. The collections are:

**EXPORT DUTIES COLLECTED**

Principal Items	1924-1925			1925-1926		
	Export Value (Million Rubles)	Export Duty (Million Rubles)	Percentage of Duty	Export Value (Million Rubles)	Export Duty (Million Rubles)	Percentage of Duty
Furs .....	60.0	2.1	3.5	58.2	1.8	3.1
Flax .....	52.0	1.5	2.9	44.8	0.32	0.7
Bristles .....	15.3	0.7	4.7	....	....	...
Timber .....	13.4	0.5	3.7	....	....	...
Caviar .....	6.4	0.3	4.7	5.3	0.35	6.7

The system now in operation was decreed on February 11, 1927, and most of the details are covered by "The General Customs Tariff for Export Trade." This enumerates the classes of the merchandise of which the export is permitted and contains a list of commodities the export of which is prohibited. The permitted exports fall into the following groups, each of which has subdivisions:

**EXPORTS PERMITTED**

Name of Group	Number of Subdivisions
Foodstuffs, etc. ....	83
Animals, animal products, and manufactures from animal products .....	54
Timber, etc. ....	45
Building materials other than timber.....	98
Mineral fuels .....	36
Chemical materials and manufactures thereof.....	229
Ores, metals, and manufactures thereof.....	131
Electrotechnical and mechanical articles.....	61
Stationery and printed matter.....	36
Yarn and manufactures thereof.....	146
All others .....	32

The growth of the country's economic activity and the reconstruction of industry have been reflected in the customs rates. In earlier years of the present government the number of commodities which could be imported free of

duty or under a very small duty was very large; machinery, raw materials, agricultural implements, for instance, all paid very low rates. In the latest tariffs, on the contrary, the fiscal interest is emphasized, most of the lower duties are abolished, and those on semi-manufactured and manufactured articles and machinery are raised. Reconstruction of small industry was followed by that of heavy industry,<sup>37</sup> and this again permitted the increase of duties on the articles produced thereby. Yet, in accordance with the general policy of industrializing the country, industrial equipment and raw materials are taxed at relatively lower rates than finished products. Those commodities of which there is sufficient home production enjoy protective duties equal to the difference between the domestic and the foreign price, plus 50 per cent. Such duties apply to almost one-half of the entire imports. Protective duties on agricultural commodities have not been greatly developed. Duties of a purely fiscal significance are levied on all commodities of mass consumption and are so assessed as to reach all the surplus profit accruing from large differences between foreign and domestic prices.

Articles unconditionally prohibited for importation are (1) various kinds of weapons; (2) opium and hashish; (3) artificial fish bait; (4) cancelled paper securities;<sup>38</sup> (5) pornographic articles; (6) printed works harmful to the U.S. S.R., politically or economically; (7) labels with trade marks of foreign firms; (8) containers and vessels with secret chambers; (9) live pigeons.

Export duties are levied on the following: (1) furs; (2) santonin; (3) horses; (4) merino sheep; (5) bone meal; and (6) scrap rubber. Export of the following is prohibited: (1) weapons; (2) cancelled securities; (3) antiquities and objects of art, except on special permit; (4) cotton; (5) live pigeons; (6) saigak horns; (7) *artemisia cina*.<sup>39</sup>

<sup>37</sup> See note 3, p. 139, above.

<sup>38</sup> Apparently refers to stocks and bonds "cancelled" by nationalization and repudiated bonds of the old régime. (EDITORS.)

<sup>39</sup> A plant which grows abundantly in Turkestan and from which santonin is extracted. There is a considerable trade in this commodity which is used as a vermifuge. (EDITORS.)

For the northern and the far eastern borderlands, in order to further their development, a special differential tariff with a number of moderate duties has been introduced.

A special feature of the Soviet customs policy with regard to Oriental countries should be noted. It is based on the general principles of the national policy of the Soviet Union and tends to facilitate to the utmost the imports of raw materials from Oriental countries, and for this purpose duties have been made favorable, or completely abolished, on most articles coming from those sources.

#### IV. REVENUE FROM STATE UNDERTAKINGS AND PROPERTIES

When the Soviet state nationalized all heavy and small industry, transportation, mails and telegraphs, foreign trade, banks, forests, and underground wealth, it concentrated in its hands a huge mass of wealth. At the moment when this concentration took place, all the properties were in a state of considerable disorganization and dilapidation; and the process of deterioration continued, as we have seen, up to the introduction of the NEP. The re-establishment of money and commercial relations lent a new aspect to the connection between the state budget and the nationalized state property. It was, of course, understood that the huge wealth handed over to trusts, trading organizations, banks, and other economic units would bring a large income to the owner—the Soviet state—provided this wealth were properly managed. But to a certain extent and for a limited period of time it was necessary that the state invest further capital in order to insure such a return. As there is no extensive money market in Russia, the budget appeared to be the only source of capital for such investments, and this function it could fulfill only on condition that all net income from state properties and undertakings should be included in it, together with all taxation revenue and receipts from loans, the total being a fund which the government might allocate in the interest of the most important branches of state economy and state government. This is a general principle on which the relation between the budget and state property rests, though we must admit that it is not quite consistently applied with regard to

certain branches. For example, while transportation, mails, telegraph, and forests are included in the budget as "gross items," i.e., with total receipts and expenditures, industry, trade, and banks appear only with their profit balances, which means that only a portion of their receipts is entered in the budget as income while all outlays for capital investments are entered in the budget as expenditures. Thus the principle of complete centralization of all the receipts of the state in its budget has not yet been carried out, but the movement appears to be in that direction and complete uniformity in this respect will probably be attained when the system, which is still in transition, reaches its final form.

The fact that the budget income of the Soviet state embraces such a wide variety of sources makes the Soviet budget differ sharply from those of all capitalist countries. It is true that the budget of almost any country contains analogous revenues, though sometimes in a rudimentary form, but nowhere else does the state appear as so extensive an owner and manager. Certain foreign investigators, discussing this characteristic in which the Soviet state differs so radically from other states, have been very pessimistic as to the future of such an economic scheme, and it is true that, in the first years of its organization, Soviet economy justified some of these pessimistic opinions, many of which, however, were based largely on prejudice. Lack of capital, the newness of the enterprises, lack of experience in management, worn-out equipment, all these together resulted in deficits. But each year has brought marked improvement both as to management and as to financial vigor and a lessening or elimination of deficits. The Soviet Union has succeeded in building up a management which appears entirely able to survive, and even though the system still suffers from many serious defects, such as great overhead expense, a certain unwieldiness, bureaucratic management, high prices, etc., persistent efforts toward betterment have already made the budget to a certain extent self-supporting. It would be a mistake, however, to assume that the organization of the Soviet state and its economic successes are to be gauged exclusively by its income or the balancing of its budget. This

is not the sole and not even the final criterion. The state, which is owner and manager, cannot consider profit as its main object, for there would then be little difference between it and any private promoter or trader. The Soviet state endeavors, through the utmost possible lowering of prices on commodities and services, to demonstrate the advantages of socialistic economic organization versus capitalist organization, and under such a policy, naturally, as prices are lowered the state's income from its properties and undertakings also decreases. It is, therefore, improbable that income from state properties and undertakings, or the so-called non-tax revenues, will entirely replace taxes. Indeed, as we analyze the growth of receipts from state enterprise we notice a certain slackening in the rate of this growth and a certain stabilization of the ratio of the earnings of public undertakings to the rest of the budget income items. Thus:

REVENUE FROM STATE PROPERTIES AND UNDERTAKINGS\*

	1924-1925	1925-1926	1926-1927	1927-1928
Absolute amounts (million rubles) .....	256.3	438.2	599.4	690.0
Ratio to total budget income....	13.4%	17.5%	17.1%	17.0%
Increase in this revenue over preceding year .....	....	71.0%	36.8%	15.1%
Increase in total budget over preceding year .....	....	30.7%	39.3%	16.2%†

\* Exclusive of transportation, mails, and telegraphs.

† The percentages in the last line here do not agree with the data given on p. 308, below (chapter four), nor with the adjusted net income on p. 312, below (chapter five). We have not undertaken to reconcile the three statements. The differences are, possibly, due to the inclusion or, as the case may be, the exclusion of items passing through the Union budget to the republics and local governments. (EDITORS.)

These figures show clearly that the year 1925-1926 was in a sense the climax in regard to income from government properties and undertakings, the ratios having become more or less stable in the ensuing years.

The details of the various income items are as follows:

### INCOME FROM GOVERNMENT PROPERTIES AND UNDERTAKINGS

	1924- 1925 (Million Rubles)	1925- 1926 (Million Rubles)	Per- centage of Growth	1926- 1927 (Million Rubles)	Per- centage of Growth	1927- 1928 (Million Rubles)	Per- centage of Growth
State industries .	68.3	93.4	36.8	198.1	112.1	250.0	26.2
State domestic trade . . . . .	23.0	14.2	—38.3	28.2	98.4	26.7	—5.2
State foreign trade	9.8	14.5	48.3	10.0	—31.1	4.4	—56.0
Banks . . . . .	20.3	46.9	131.0	67.6	44.0	78.2	15.6
Forests . . . . .	104.8*	214.7	104.8	220.1	2.5	230.4	4.7
Underground wealth . . . . .	8.5	20.7	143.1	42.6	105.5	65.6	53.8
All other state property and undertakings .	19.4	30.5	57.1	29.6	—2.8	30.2	2.0
Concessions ...	2.2	3.3	50.0	3.2	—3.7	4.5	40.6
Total . . . . .	256.3	438.2	71.0	599.4	36.8	690.0	15.1

\* Exclusive of contributions to local budgets.

An analysis of these income items will help us to see the causes of the fluctuations and of the decline of their rate of growth. The two most general of these causes are (1) the fact that the reconstruction period for most of the activities concerned has ended, and (2) the price-lowering policy of the government. When we speak of the close of the reconstruction period we mean the return of the respective economic branch to a condition approaching the pre-war level, and a more or less complete adaptation of the plants and enterprises inherited from capitalistic times. Having started from a very low level after the general debacle, revival was rapid until an approximation to the pre-war level was reached, when further progress became slower. The question of new investments then began to loom imperatively if production was to be further expanded. Such new investments have, of necessity, been retarded. In some cases, such as foreign trade, there are other specific causes for the slackening of further development, though the pre-war level is still far from having been reached. Detailed analysis alone



can throw clear light on the present condition and the probable future of this all-important branch of Soviet finance.

#### A. REVENUE FROM INDUSTRIES

In capitalistic countries the relation of private industry to the state budget consists merely in the payment of taxes or duties; in the U.S.S.R. it is much more complex. Industry<sup>40</sup> is connected with the budget on the revenue side: (1) through payment of taxes; (2) through making proportionate payments annually out of its profits; (3) through investing part of its reserve capital in the 8 per cent domestic loan bonds issued especially for this purpose; (4) through repaying to the state that part of the state's advances which was granted as loans. On the expenditure side of the budget the relation of industry to the state is as follows: (1) the upkeep, by the state, of central regulating and managing agencies; (2) the allocation by the state of funds for increasing the working capital; (3) the financing by the state of the construction of dwellings for workmen and the housing of industrial enterprises; (4) the service of the 8 per cent domestic loan mentioned above. A study of the so-called "accounting balance" which appears as a result of these manifold relations of industry and the budget is of no small interest, and will be taken up later. For the present, we may confine our attention to the income side of the budget.

In the chapter on direct and indirect taxes, the taxes which fall to the share of industry have already been described. Here it is necessary merely to recall one tax which is not levied on the sales but on the profits, and which is not shifted to the consumer. This is the income tax levied to the extent of 10 per cent on declared profit. The method of taxing profits in two ways simultaneously, partly as income tax and partly, and in larger measure, in the form of direct payments to the budget, does not serve its purpose and should be abolished.

The bulk of payments made by industry consists in these

<sup>40</sup> As stated before, "industry" in these chapters means practically every economic activity not distinctly agricultural or trade. The antithesis here is between the "peasant" and the "proletarian" or wage worker. (EDITORS.)

two direct payments from profits; and in absolute amount, industrial profits are growing year by year, as may be seen from the following table:

## INDUSTRIAL PROFITS BY YEARS

(Million rubles)

Profit	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
From industries of the U.S.S.R. ....	98.4	286.7	390.7	460.0	485.0
From industries of the individual republics and localities .....	101.6	141.3	219.3	240.0	315.0
Total .....	200.0	428.0	610.0	700.0	800.0
Increase each year over preceding year .....		114.0%	42.0%	15.0%	14.0%

The rate of progress is becoming slower. Under the Soviet state's system of planning its economic operations in advance, industrial profits depend first of all on the release (or basic) prices fixed by the government. These are the prices at which industry sells its output to the trading organizations, and since the state keeps an eye on the general interests of the country and pursues the policy of strengthening the connections between city and village, it naturally endeavors to lower prices by improving industrial organization and reducing overhead charges as well as by cutting down those profits which become excessive. The relation of each branch of industry to the whole economic system of the country is taken into consideration—i.e., its financial situation, its prospects of development, the necessary enlargement of its capital, etc. There is no fixed norm for profits—the norm is admitted to be different for each industry—as may easily be seen from data on such industries as are of nation-wide importance, including all the larger and better equipped plants whose activities reach beyond the limits of the particular republics in which they are situated. All these are under the direct control of the Supreme Economic Council of the Union, while all industry of local importance or having significance only for the particular region in which

it lies is managed by the economic councils of the republics and gubernias. We take two indices of the size of profits: the ratio of profit in the given branch to the cost of its products sold for 1926–1927, and the ratio of the profit to the working capital (as in the estimates for 1927–1928) :

## PROFITS OF CERTAIN INDUSTRIES IN 1926–1927

Industries	Percentage of Output Sold	Percentage of Working Capital
Rubber .....	16.5	18.3
Electrotechnical .....	15.6	10.4
Textile .....	15.4	10.0
Petroleum .....	9.8	10.3
Building .....	7.8	5.7
Coal mining .....	6.6	1.1
Metallurgical .....	4.8	2.1

The basic branches of heavy industries such as coal mining and metallurgical industries appear to be the least profitable. On the other hand, small industry and the petroleum industry with its exports prove to be the most profitable.<sup>41</sup> In this respect, however, the Soviet state hardly differs from Europe in general. The difference appears in that the Soviet state directs the bulk of capital not into the most profitable but into the most important—from the state's point of view—branches, namely, certain of the heavy industries.

The reason why these large industries prove less profitable is that in addition to the complicated organization of the capital involved, the available funds are relatively small and are not as effectively employed as are those in smaller industries. Another cause is the vital importance of low prices for fuel and metal in the work of transportation, which causes the government to regulate stringently the prices of the output of these heavy industries. The share of profits which is to be surrendered to the State Treasury was not fixed by the earlier law on trusts, because all of the profits of a trust, with minor exceptions, would go to the state. In practice, however, this theory met with serious

<sup>41</sup> Not sustained by the table. (EDITORS.)

opposition from industrial trusts whose management pointed out, not without reason, that their financial situation was difficult and that there were certain considerations which made it impossible to comply strictly with the law. The situation was further complicated by continual controversies between the Commissariats of Finance and Industry as to what the actual profits were,<sup>42</sup> and by the fact that there were no fixed amortization norms and not even approximately precise estimates of the initial capital invested, etc. Although the situation is as yet far from perfect, a number of basic questions have been cleared up, and most of the controversies have been eliminated. When the new, 1927, law on trusts went into effect, matters were further simplified. This law provides that the income tax shall first of all be paid out of the profits and the remaining profits then distributed as follows: 10 per cent to the fund for improving the living conditions of workmen and employees—i.e., for the construction of dwellings, houses of recreation, etc.; 10 per cent to the reserve and the emergency fund; 25 per cent to capital to be employed in enlargement of output; and a maximum of  $\frac{1}{4}$  per cent for premiums for the technical personnel and other inducement premiums. The balance of the profits, less some special percentage payments for specifically designated purposes, goes to the state or to the local budget. In 1927–1928 the state received 40 per cent. During the first years of the NEP, the percentage going to the budget was lower for industry as a whole but was higher for the larger industries of nation-wide importance.

#### SHARE OF PROFITS PAID INTO THE TREASURY\*

1923–1924	1924–1925	1925–1926	1926–1927	1927–1928
15.8%	19.7%	21.0%	36.8%	40.0%

\* Obviously the significance of this depends on the computation of profits. (EDITORS.)

Other payments made by industry to the State Treasury will be examined in detail in the section on loans and other state income.

<sup>42</sup> Not unknown in "capitalistic" business. (EDITORS.)

A general picture of the payments out of industrial profits to the state and local governments and other prescribed payments is as follows:

**INDUSTRIAL PROFITS TO STATE AND LOCAL GOVERNMENTS**

	<i>(Million rubles)</i>				
	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
Income tax .....	13.6	37.5	61.0	63.0	70.0
Payments from profits:					
Into the state budget....	25.3	68.3	93.4	198.1	250.0
Into local budgets.....	6.3	15.9	35.0	60.0	70.0
Purchases of 8 per cent loan .....	5.8	27.0	29.5	67.0	63.0
Refund of loans and other receipts .....	15.3	16.3	26.5	36.0	27.5
	-----	-----	-----	-----	-----
Total payments into the Treasury .....	66.3	165.0	245.4	424.1	480.5
Percentage of total profits	33.1	37.4	40.2	60.6	60.0*

\* We have insufficient data to check these figures. But the reader will observe that they agree substantially with those on p. 228, above. (EDITORS.)

In short, the balance left to the direct disposal of industry itself is 40 per cent of the profits, while 60 per cent is distributed through the state and local budgets and the long-term credit institutions.

**B. REVENUE FROM STATE DOMESTIC TRADE**

Notwithstanding the fact that most of the trade in the U.S.S.R. passes through the hands of the state and of co-operative organizations, the profit to the state is quite modest. It has been, in recent years:

**GOVERNMENT REVENUE FROM PROFITS OF TRADE**

	<i>(Million rubles)</i>			
	1924-1925	1925-1926	1926-1927	1927-1928
	22.4	14.2	28.2	26.4

Yet the capital invested is considerable and the commodity sales are increasing year by year. The wholesale

transactions alone, 95 per cent of which are in the hands of the state and the co-operative organizations, have grown from 6.7 billion rubles in 1924-1925 to 11.3 billion rubles in 1925-1926, 15.2 billion rubles in 1926-1927, and 18.6 billion rubles in 1927-1928. This rapid growth is due largely to the general trade policy of the government, which not only discourages all commercial accumulation of wealth but, by unceasing regulation of trust prices, seeks to reduce trading profits to the lowest minimum. In the language of pre-war Russia or of capitalistic countries, the bulk of profits remains in the hands of the producer and not the trader. The mutual connections between the state and industry and trade are such that trade profits cannot be large. At present nearly all industrial trusts are syndicated and sell the bulk of their output not directly, but through the syndicates. Thus the petroleum, textile, and salt industries are syndicated almost 100 per cent; and other branches are rapidly approaching this condition. In such activities as the sugar and the rubber industries, there are no formal syndicates, but they are united, like the rest of state undertakings, in gigantic trusts, one sugar trust and one rubber trust, so that in this case trusts fulfill the function of syndicates. Syndicates as well as trusts come under the control of the Supreme Economic Council. There are seventeen of them, and their aggregate capital reaches almost one-half of a billion rubles, though only six make payments to the government out of their profits—the textile, the petroleum, the leather, the salt, the metal, and the fats syndicates. Their aggregate profits are from 12 to 13 million rubles. The smallness of this figure is due to the fact that syndicates work on a commission basis, receiving from the trusts only about 1 per cent on the goods sold. It must be admitted that the Treasury receipts from the syndicates are altogether insufficient from the budget point of view, but the syndicate system is still quite young and not well organized.

Another group of organizations which yield a fair profit are stock companies belonging to the various People's Commissariats. Their number is considerable—about four hundred—but only about one hundred and twenty-five of them

may be said to be of country-wide importance, the others being much smaller; and only six make payments to the government out of their profits. The aggregate capital is nearly 400 million rubles, of which about 390 million rubles is held by the state, the other 10 million being owned by imported private foreign capital. The conditions in these companies are still less satisfactory than those in the syndicates, and there should be many ways of increasing their yield to the budget.

Co-operative trade makes no profit payments to the state and it would appear that the government ought to exercise its distributive function as between various branches of the state economy more fully than it does at present, and should assist co-operative trade by subventions in order to enable it to produce greater earnings and consequently be in a position to make payments to the Treasury.

#### C. REVENUE FROM STATE FOREIGN TRADE

This group of receipts holds a still smaller place in the budget than the receipts from domestic trade. Besides many factors—such as excessive overhead—which are common to domestic and foreign trade, there are specific weaknesses in the foreign-trade situation. Both foreign and domestic trade have organization defects and expensive management, but in foreign trade there is the added difficulty of a general decline in the profitability of exports and the necessity, as to imports, of favoring industrial equipment and materials. Many exports bring nothing but losses to the state because of the rising cost of production in the country and the falling prices in the world's market; and although these losses are covered by profits from other export and import items—all imports bringing more or less profit to the state—still the total return from foreign trade is lowered. The situation may improve, but much will depend on world prices and the possibility of reducing domestic prices on export goods. That the possibilities in this field are considerable is clear from the data shown in the table on page 234 concerning the expenses involved in grain exports.

## EXPORT COSTS ON RYE AND WHEAT\*

	<i>(Million rubles)</i>			
	1909-1913	1924-1925	1925-1926	First Half 1926-1927
Rye .....	29.05	66.3	63.2	58.5
Wheat .....	28.6	69.5	64.0	58.8

\* Trade and overhead expenses (kopecks per pud).

Overhead and trading expenses are twice as high as in pre-war days, though they are declining year by year.

As to imports, we have already seen that some items on which the highest profits might be expected, such as articles of mass consumption, have been excluded from the list of permissible importations.

There is yet another reason for the insignificant budget yield from foreign trade. It is the fact that foreign trade profits are absorbed in industrial profits and to some extent in the profits of domestic trade, both state and co-operative. Timber exports are an illustration in point. The timber trusts have created a special organization for export, called the "Exportles." The sales of this organization are fairly large, amounting to some scores of million rubles, yet its apparent profits are only 140,000 rubles. The actual profits from sales are much higher, but they are entered in the balance sheet of the timber industry, while the export organization receives only a fixed commission.

The export trade is operated mainly through two basic organizations: (1) trade representatives abroad; and (2) special export-import organizations for separate commodities, such as grain, timber, raw materials, agricultural implements, etc. The receipts of the state consist in payments from profits of these two groups of organizations. In addition to these, co-operatives and trusts also take part in foreign trade to some extent, the trusts being allowed independent action.

The sales of the foreign trade representatives is quite considerable—some 800 million rubles a year—but, since the government rigidly fixes the very small commission to which foreign trade representative organizations are entitled on sales and purchases, their profits, though they all go to the



state, form only a small contribution to the Treasury. It fluctuates between 1.5 and 2.5 million rubles. The capital funds of the foreign trade representatives are as a rule not large, and they work chiefly on whatever capital they succeed in attracting, a method which is rather expensive.

Certain joint-stock and mixed companies, which also take part in the export trade, yield something like 2 million rubles to the Treasury from their profits. They are chiefly importing organizations, handling leather, cotton, wool, and agricultural implements, and a number of companies engaged in the Persian trade. Their aggregate sales are about one-half billion rubles, and they work on a commission basis. About one-half of their profits comes to the state budget.

Of the larger export organizations only those which handle grain make payments to the budget.

There are certain other organizations which take some part in foreign trade, which do not devote themselves to it exclusively, but engage in domestic trade as well. They include State Trade Offices ("Gostorg"), industrial trusts which have the right of independent action in foreign markets, and the co-operative trade. However, except for the Gostorg offices, which pay about one-half million rubles to the budget, these organizations yield nothing. The aggregate capital invested in these various organizations is 150 million rubles.

Summarizing the foregoing, it must be said that the receipts of the budget from foreign trade are not satisfactory and that the actual profits which escape in various ways are considerably higher. The solution of the problem lies in assuring a more careful and complete accounting of these profits and putting the emphasis on the system of preliminary planning.

#### D. RECEIPTS FROM BANKS

The credit system of the Soviet Union has developed considerably. The government has succeeded in using one of the mightiest levers of the capitalistic economic system in such a way as to make it serve a socialistic organization.

Though the banking technique of the Soviet Union and of the capitalistic countries coincides completely, there is a great divergence in their operating principles. The principle of preliminary planning, so characteristic of every branch of Soviet economy, penetrates banking as well. Credit, currency issues, and foreign exchange are handled by the banks in strict accordance with the plan laid down for the development of industry, trade, and agriculture, and with the general instructions received from the economic bureaus of the government. This peculiarity is due chiefly to the important part played by nationalized economic enterprise. The banks operate chiefly with state funds, and therefore the accumulation and use of assets cannot be handled in the usual narrow commercial ways. Yet this does not mean that the credit system duplicates that of the state budget, for if this were so it would be superfluous. It is absolutely binding on every Soviet bank to harmonize the interests of the state with commercial efficiency; and this is achieved through granting the banks wide initiative within the limits of the general plan laid down by the state. At the head of the credit system stands the State Bank, which is a central organ of issue and of short-term credit. All other banks may be subdivided into the following groups (omitting petty credit organizations, such as savings banks, pawnshops, and co-operative credit establishments): trading and industrial; co-operative; communal; agricultural; and mutual credit companies handling private credit. All this new growth has taken place since the introduction of the NEP, and is largely due to the support lent by the state which assisted in greater or less degree in creating the funds of the larger banks. These, however, succeeded later in strengthening their position, in enlarging their balances, and in considerably increasing their capital. The aggregate capital of the entire Soviet credit system has grown, from October 1, 1924, to October 1, 1927, from 327 million rubles to 1,300 million rubles, while its combined balance sheet for the same period grew from 2.4 billion to 9 billion rubles. The banks have become centers which attract all the free money reserves of the country and deposits have increased 1 billion rubles, exclusive of State Treasury de-

posits, in three years. Another large resource of the credit system has been the banknote issue, which in the same period reached about 950 million rubles. Foreign bank credits at the end of 1926 somewhat exceeded 100 million rubles. All in all, the Soviet credit system had at its disposal at the close of 1927 about 5.5 billion rubles from the various sources named. These funds were used in the economic reconstruction of the country according to a carefully thought out plan and became a big factor in it. The system has developed much more rapidly than all of the country's commercial turnover, a growth which was possible only on the basis of increased commercial activity, which came to consist more and more of an exchange of money and commodities and credit. The complicated problems which now face the credit system are a result of the exhaustion of capital funds which were obtained by revolutionary methods. The necessity has now become apparent of replacing the early short-term credit, prevalent in the first years after the Revolution, by long-term credit, and this has caused special long-term credit banks to be created for all the basic branches of industry and trade. These banks are: the Industrial Bank, carrying a special long-term credit department which is to be the center of gravity of the whole industrial establishment; the Electrical Bank, which finances the electric industry and the construction of power stations; the Central Agricultural Bank, financing rural economy; the Bank for Foreign Trade; the Central Community Bank, financing chiefly city improvements and the building of dwellings; and the Co-operative Bank. These six central banks form, under the leadership of the State Bank, the center of the whole credit system of the Soviet Union. The State Bank takes the leading part, its operations being the basis of short-term credit. No less than one-half of the aggregate balance of the whole credit system falls to its share. Naturally it collects most of the profits. In the course of the last accounting year these amounted to about 140 million rubles, and some 165 million are expected to be realized for 1927-1928. According to the charter of the State Bank, 65 per cent of its profits are paid into the State Treasury.

The dividends of the joint-stock banking companies and their paid-up capital on October 1, 1927, were:

### CAPITAL AND DIVIDENDS OF THE STATE BANK

	Paid-Up Capital (Million Rubles)	Dividends on October 1, 1927 (Million (Rubles)	Percent- age
Industrial Bank .....	102.5	4.8	4.7
Central Agricultural Bank.....	90.0	1.0	1.1
Central Community Bank.....	43.2	0.86	2.0
Foreign Trade Bank.....	40.0	2.4	6.0
Electrical Bank .....	30.0	0.3	1.0
Co-operative and other joint-stock banks .....	41.5	3.0	7.2

The profits of these banks are distributed as follows: those shareholders who are on the state payroll return their entire profits to the state; those who are on the "home accounting" basis pay a share fixed by the Commissariat of Finance. Only about one-half of the entire profits of the companies goes to the State Treasury.

### PAYMENTS OF THE STATE AND OTHER BANKS TO THE STATE TREASURY

(Thousand rubles)

	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
Payments from profits of the State Bank	6,547	18,600	45,281	60,000	73,000
Payments from profits of other banks. ....		1,722	1,663	7,417	5,159
Total .....	6,547	20,322	46,944	67,417	78,159
Percentage increase over the preceding year .....		210.4%	131.0%	44.0%	15.9%
Total of all profits received by the credit establishments ...	55,700	106,000	143,000	187,000	200,000

The rate of progress of these payments is slowing down, and the same is true of the basic resources of the credit system, i.e., loans and deposits: .

LOANS AND DEPOSITS, ALL BANKS

(*Million rubles*)

	Loans	Deposits and Current Accounts	Total	Increase over the Preceding Year
On October 1, 1924.....	521.9	562.4	1,084.3	.....
On October 1, 1925.....	982.8	1,315.4	2,298.2	1,213.9
On October 1, 1926.....	1,172.6	1,506.5	2,679.1	380.9
On October 1, 1927.....	1,471.0	1,545.6	3,016.7	337.6

The largest increase—1.2 billion rubles—occurs in the year immediately following the currency reform. The following years showed the effect of the economic difficulties of 1925–1926. The mere fact of the slowing down of the rate of growth as economic conditions approach a return to their pre-war level, presents, of course, nothing unexpected. Yet, this decline has been too sharp. The currency, although it at present reaches a total of 1.7 billion chervonets rubles, is equal to less than one billion pre-war rubles, or 40 per cent of the whole currency in circulation before the war; and in view of the fact that all of the country's economic activities have considerably improved and that some branches have even exceeded their pre-war level, such an amount is not too great.<sup>43</sup> As industry develops, peasant agriculture brings more produce to market, and the turnover between city and village becomes livelier, the money demand will also grow and will afford a greater opportunity for paper issues. Thus there are some prospects of larger income from the banking system, though progress may be slow because of the necessity of granting cheaper credit.

In the light of the facts and figures above showing the amazing rapidity with which the noble structure of the Soviet credit system has progressed, it becomes possible to pass a sober judgment on the chances of success which

<sup>43</sup> Whether an issue is too great depends not only on quantity but also on velocity of circulation and confidence in the issue. Lacking confidence, people pass the paper faster from hand to hand. The ration system also tends to make a few paper notes move faster. (EDITORS.)

tempted some European States to adopt their policy of financial blockade.<sup>44</sup>

One hundred million rubles obtained on foreign credit and five and one-half billion rubles of the Soviet state's money mobilized! Such a striking contrast seems to indicate that any attempts at a financial blockade are doomed to failure. If worse comes to worst, these attempts cause only a small delay in the reconstruction of the country's social economy, while at the same time inflicting material loss on the trade of the countries which apply the policy.

#### E. REVENUE FROM FORESTS

The Soviet Union occupies the first place in the world in extent of forest wealth. Of the 1.8 billion hectares of timber forest<sup>45</sup> on the entire globe, the share of the U.S.S.R. is about 800 million desiatins (approximately 872 million hectares) or about one-half of the whole timber area. This indicates the importance of Russia in the world's timber market. Most of her forests, about 60 per cent, belonged to the state before the Revolution; at present all forests are nationalized and are controlled by one central management. Not all of this boundless forest expanse, however, is equally useful so far as geographical and other conditions are concerned. Only about 500 million hectares are considered worth handling, most of it lying in Siberia and the Far East. Exploitation of Russia's forest wealth was inadequate even before the war, the forest-covered northern gubernias being sparsely populated and therefore lacking good roads, while the southern districts, densely populated and having good communications,

<sup>44</sup> It may well be asked whether the so-called "blockade" is anything more than the foreigner's natural reluctance to place his money in a country with new and untried laws as to property rights, and one in which a revolution has so recently taken place that the possibility of another cannot be ignored. (EDITORS.)

<sup>45</sup> The Forestry Division of the University of California informs us that there is authority for an estimate of 7½ billion acres in the world's forests, or 3 billion hectares. But of this 3 billion about one-fourth is unavailable, leaving 2¼ billion hectares, in place of the author's 1.8 billion, and Russia's forests, at 872 million hectares, make about one-third, instead of one-half, of the world's forests (large enough, at that). (EDITORS.)

suffered from an acute lack of wood and lumber. If the European part of the U.S.S.R. is divided into three zones, northern, central, and southern, it will be seen that the per capita forest area declines sharply from north to south.

## POPULATION IN FOREST AREAS

Zones	Density of Population per Square Verst	Desiatins of Forest per Capita
North .....	4.5	12.6
Central .....	39.0	0.86
South .....	51.0	0.16

The output of timber in the North is about 6 cubic feet<sup>46</sup> per desiatin of exploited forest; while Sweden, under identical geographic conditions, has an output of 50 cubic feet and neighboring Finland, 17 cubic feet. In the South, the output has risen to 126 cubic feet per desiatin, which testifies to a considerable demand for timber and a shortage of it. The average natural increase by growth in Russia is about 60 cubic feet per desiatin yearly, but only about 20 per cent of this growth had been released yearly out of state-owned forest, to a total value of 200 million rubles. The World War and later the Revolution hit the timber industry very hard. The heavy demand for wood led to the scrapping of all the plans for afforestation and timber distribution and an entire change in the policy of forest management. A normal regulated exploitation of forests should limit the yearly cutting to the yearly accretion; and in addition, through afforestation, should help multiply the more desirable varieties and increase the forest resources generally. The fact that during the civil war the largest coal and petroleum regions were cut off from Russia necessitated an increased cutting of timber along the narrow 30-verst [about 20-mile] strip parallel to railways and rivers, and this had several ill effects. A comparison between the quantity cut during the five years following the October Revolution and the quantity that might

<sup>46</sup> The Russian foot is the same as that of the United States and Great Britain.

have been cut under a rational plan gives a picture of the extent to which deforestation along this 30-verst strip was carried:

#### QUANTITY OF TIMBER CUT DURING FIVE YEARS

	1918-19	1919-20	1920-21	1921-22	1922-23	Total
Timber output in thousands of cubic sazhen* in the 30-verst area .....	14,341	22,029	22,590	17,055	14,333	90,348†
Normal output on a corresponding area, in thousands of cubic sazhen..	10,386	10,192	10,020	9,848	9,504	49,950
Percentage of excessive cutting as compared with the normal	38	116	125	73	51	81

\* A sazhen is 7 feet.

† About 242,000,000 cords.

In spite of Russia's great forest wealth, such unreasonable exploitation had a very bad effect, especially in view of the above-mentioned conditions—uneven geographical distribution of forests and bad roads in the country. An indirect consequence is the silting up of rivers; a direct one, a great exhaustion of the forests. In some gubernias of central Russia the rational annual cut of timber was exhausted for 60 years ahead. A number of steps are being taken toward a return to rational forest management, and considerable sums are spent for this purpose. An improvement in the situation is to be anticipated. Still, even now, in a number of regions, the yearly output considerably exceeds the normal quota. It becomes a matter of greater and greater urgency to include under the timber industry the remote and little-used forests of Siberia, the Urals, and the Far East. Even before the war, the forest wealth was insufficiently studied and surveyed from an economic point of view. In 1913, a ten-year program of forest survey and planning was under con-



sideration, but this was never carried out. As a result, some regions suffer an acute want of timber, though for the country as a whole the natural accretion of forest is not now being used beyond about 35 per cent.<sup>47</sup> This has caused the governments of the federated republics which manage their own forests directly to pay especial attention to the improvement of their forest management, under correct principles of forest policy, laid down by the Federal government.

The entire "forest fund" is officially divided into forests of national importance and those of only local significance. The latter have been set aside for the current requirements of the peasantry, in order to free the state of the task of managing small tracts all over the country. The state-managed forests are again subdivided into those managed directly by the Commissariat of Agriculture of the Central Government, and those so-called "assigned." The latter are tracts leased, for a definite number of years and on specified conditions, to industrial or transportation enterprises. These enterprises are thus assured of their supply of raw material, while, at the same time, their operations are carried out in accordance with the normal plan of forest exploitation.

The rapid growth of the industry increased the timber output from 92 million cubic meters in 1924-1925 to 144 million cubic meters in 1925-1926. Of this about 60 per cent goes for firewood and only about 40 per cent for building. Timber exports also have grown and demanded a larger output. Before the war, Russia was foremost among timber exporting countries; within her present frontiers the exports of 1913 were 7.5 million cubic meters, valued at 107 million rubles, and in 1926-1927 they were 4.1 million cubic meters, worth 80 million rubles. Nearly one-half of all exported timber goes to England. Considering the vastness of Russia's timber wealth, these exports must be said to be inadequate. The vast forest wealth of Siberia and the Far

<sup>47</sup> We cannot reconcile this with the other figures. Sixty cubic feet per desiatin on 800 million desiatins would give 1,360 million cubic meters, of which the 144 million reported as cut in 1925-1926 is a little over 10 per cent. Possibly the 35 per cent refers to forests under actual cutting, omitting remote districts. (EDITORS.)

East remains very nearly unexploited, the greatest obstacles being shortage of capital and antiquated technical equipment. The bulk of forest income is determined by the so-called stumpage price paid by the buyer for a unit of standing forest. At first timber rates were calculated on the basis of the pre-war ones, but at present they are being revised in accordance with a careful survey of all the peculiarities of the actual politico-economic situation; and special export rates are being established on the basis of world market prices for those forest regions which are able to export. The method of timber release has been changed several times owing to controversies between advocates of two divergent theories: the planning and the commercial. Until 1925-1926 the planning method prevailed, under which timber was released in fixed quantities and at fixed prices. In 1925-1926 the method of competitive sales was introduced, which at once increased the income from forests and exposed the out-of-date character of the old system and of prices which no longer corresponded to market conditions. As a result, however, prices became excessively inflated and the cost of using timber consequently dearer, and this experience caused the planning method to gain precedence again. Most buyers were now sold timber according to a general plan, while prices were reduced by about 20 per cent, until such time as further fixed rates should be worked out. This change brought about a material decrease in the forest revenues.

The profitableness of the U.S.S.R. forests has always been very low compared with that in Western Europe. Even if we take the year 1925-1926, when timber prices had risen, the gross income per hectare was only 0.41 rubles; whereas in Prussia it was, in 1913, 26.3 rubles; in Alsace-Lorraine, 28.3 rubles; in Bavaria, 31.8 rubles; and in Saxony, 46.5 rubles. It is evident that the forest income of the U.S.S.R. can be increased scores of times and may become one of the basic resources of the budget. But to achieve this, considerable funds must be spent at once in order to organize forest economy and the timber industry. Also, a program must be worked out carefully for a long period

of time in advance, providing for intensive forest culture and the exploitation of new forest tracts in remote regions.

F. REVENUE FROM UNDERGROUND WEALTH AND FROM VARIOUS STATE PROPERTIES AND UNDERTAKINGS

The nationalization of land put all the underground wealth at the disposal of the state; but not until 1927 was a "Ruling" published concerning this wealth, formulating, precisely, the legal and economic aspects resulting from such state ownership. During the first years of financial reconstruction, underground wealth brought no income. To be more exact, this income existed, as it were, in rudimentary form, as rather negligible quota payments to the governments of the Transcaucasian Republics on the petroleum produced in their territories.

In all branches of industry exploiting underground wealth—petroleum,<sup>48</sup> coal, metals, salt—payments to the government for the lease of the respective lands should be an essential part of the calculated price of the products of these industries. The varying richness of petroleum deposits in different areas; the varying thickness and quality of coal strata in different coal regions of the Union, in the absence of any rent payments, meant disguised premiums granted by the state to the trusts which found themselves in possession of the better tracts. As a result, such trusts were in a favored position, regardless of whether or not they were better organized. Payments for the use of underground wealth in proportion to its value would eliminate this irregularity, and if such proportional payments were introduced the real profits of the enterprise would imme-

<sup>48</sup> The Russians use "naphtha" as a broad general term for all petroleum products. This is in accord with the original meaning of the word naphtha in English, which was "rock oil," or "mineral oil." But in the United States that broad meaning has been lost and naphtha to most people means one of the very light oil products of refining. Thus the United States Census Bureau divides the products of "Petroleum Refining" into some fourteen classes, and calls one group "naphthas and lighter oils," under which it lists: "gasoline, naphtha and benzene." Popular usage as to these terms is confused, except that "petroleum" is well understood as a general term. Accordingly we have used petroleum as a translation of the Russian term which is literally *naphtha*. (EDITORS.)

diately appear and the correctness of the accounting could be controlled; and since most of such undertakings export their products to countries where royalties are generally paid, their real capacity to compete could be estimated more precisely. From the standpoint of the commercial principle in trade which is being introduced in the Union—not to speak of the purely fiscal interests of the state—royalties for underground wealth are both natural and expedient. In pre-war times the enterprises which were situated on government land paid a royalty which then entered into the cost of production, the amount varying but being, in the petroleum industry, for instance, about 15 per cent. The present rates are comparatively low, being not over 6.10 rubles per ton for the petroleum industry, 37 kopecks per ton for coal, 31 kopecks per ton on iron ore, etc.<sup>49</sup>

The income from underground wealth reaches a considerable figure. For 1928–1929 it is expected to be about 65 million rubles, and it is growing every year. The vast riches hidden underground in the U.S.S.R. and the progress and technical improvement of the industries occupied with their extraction promise great economic and financial results.

#### G. RENTAL REVENUES

Into this category come all receipts which, in the budget, fall under the caption of “other state income.” They include rent from lands belonging to the state—peat swamps, fishing waters, and hunting grounds—nationalized factories, and other undertakings.

All these items play an important part in the budget, but being, with few exceptions, at the disposal of the various republics, they do not enter into the general state (Union) budget. The management of this branch of revenue and its present condition must be said to be unsatisfactory, for

<sup>49</sup> These rates are sketchily stated. It seems nearly impossible to work on a flat rate per ton on petroleum, regardless of quality, depth of workings, etc. In the California oil field an eighth royalty is a common contract. We have left the figures as found in the Russian manuscript. (EDITORS.)

without doubt it ought to be capable of yielding much greater returns than it does. Its inadequacy is due to the wide dispersion of the properties, to the absence of a single central government organ in charge of them, and to the fact that the attention of the government in financial matters is engrossed in the more urgent and fundamental problems of the day. Besides, during the civil war and the military communism, the people and the state organizations grew accustomed to paying nothing for the use of all such property, and, when, subsequently, payments for their use began to be introduced, collection proved a difficult task. Control was difficult, and the government offices in charge of the matter were insufficiently organized. It took a long time to re-establish the payment basis, and even now it is not yet quite firm, and in greater or less degree losses occur continually and the exploitation of wealth on state premises is not regulated. Rent, where it is charged, is very low, the use of state lands being granted, in many cases, free of charge; and supervision is often insufficient. How extensive this property is and how high its value may be judged from a very brief description. The area directly managed by the central and by local governments is about 29 million desiatins, or 32 million hectares. The distribution of these lands among the republics and with reference to their use is the following:

PUBLIC LANDS OF THE U.S.S.R.

(*Million desiatins*)

	Soviet Farms	Lands and Waters Yielding Revenue	State Reserve Lands	Total
Russian Republic . . . . .	2.48	2.3	14.30	19.08
Ukrainian Republic . . . . .	0.95	1.3	0.85	3.10
Belorussian Republic . . . . .	0.16	0.06	0.02	0.24
Transcaucasian Republic . . . . .	0.03	2.8	0.07	2.90
Uzbekian Republic . . . . .	0.02	0.1	3.46	3.58
Turkomanian Republic . . . . .	0.01	0.01	0.11	0.13
Total . . . . .	3.65	6.57	18.81	29.03

The Soviet agricultural farms, called briefly "Soviet farms," occupy an aggregate area of a little over 3.5 million desiatins (9.5 million acres). They are large state farms working on a self-supporting or "home accounting" basis. Their purpose is a dual one: first, to become in a more or less distant future large granaries supplying industrial centers and thus freeing the state from some of its present dependence on peasant farming and markets; and, second, to be a form of propaganda among the peasants with respect to the advantages of large-scale farming and advanced agricultural technique, as well as to offer the peasants practical aid in the form of machinery, tractor-plowing, improved seed, etc. The larger Soviet farms are combined in agricultural trusts, a part of the profits of which goes into the state budget. These trusts are exempt from the payment of rent for their lands. Other Soviet farms form parts of some of the large industrial trusts, such as the sugar trust, which runs beet plantations, the tobacco trust, the alcohol trust, etc. These trusts pay a rather high rental for the lands occupied by their plantations—from 3 to 8 rubles a hectare. Those Soviet farms which are under the management of various government departments are mostly exempt from rent.

The state reserve lands, the largest item in the table just given, are as yet far from being fully exploited. Only those which are not intended for new peasant settlements are being leased, in all about 10 million desiatins, yielding a total revenue of about 14 million rubles. This revenue is considered to be very low. It has been estimated that with rentals even lower than was customary in pre-war days we might have 90 million rubles instead of the 14 million received at present.

Another source of income from state lands is the renting of peat swamps, in area about 25 million desiatins, containing peat deposits estimated at about 50 billion cubic sazhen.<sup>50</sup> The peat is now taken out by machinery and washed with a powerful jet of water, devices which have

<sup>50</sup> About 134 billion cords. (EDITORS.)

helped to increase the output to almost double its pre-war volume. The rental paid to the government by industrial undertakings working the peat swamps amounts to about 1.7 million rubles and is increasing steadily.

Profits from fisheries make a considerable item in the rent income. It consists of royalties for fishing waters and payments for the right of fishing and buying up fish. Before the war, the fishing industry was highly developed in Russia, and in quantities of fish caught she was second only to England, the annual catch being about 70 million puds. Over one-half of this quantity came from the Caspian fisheries, and about 15 per cent from the Pacific. The richest fisheries before the war were in the possession of the government, and after the Revolution all were nationalized and their management centralized. At present there is a large government fishery trust which pays royalties to the state, the receipts being more than half of the total revenue of the state from rentals. The industry is developing rapidly and is approaching its pre-war level.

#### H. REVENUE FROM CONCESSIONS

Concessions are not yet highly developed, chiefly because of the caution exercised by the government in the choice of concessionaires, and also because the attitude of many concession bidders was not sufficiently serious.

The fundamentals of the concession policy were laid down in 1920 by a decree of the Commissariat of Finance of November 23 "On General Economic and Legal Regulations Concerning Concessions." This decree formulated rather exactly the conditions on which foreign capital could be accepted for investment in the country, and enumerated the concessions that would be offered to capitalists: forest, mining, agriculture.

The change to the NEP brought about the conclusion of the first concession agreements at the close of 1921, and the following year brought numbers of applications, though most of them lacked substance and were therefore refused. The number of applications and of agreements closed has been as follows:

## CONCESSIONS

Applications	1922	1923	1924	1925	1926	1927	Total
Applications received . . . . .	338	607	311	253	506	196	2,211
Agreements concluded . . . . .	15	45	25	31	28	19	163
Percentage ratio . . . . .	4.4	7.4	8.0	12.2	5.5	9.7	7.4

The agreements actually concluded are very few—only 7.4 per cent of all the applications received. Trade concession offers were the ones most strictly examined. The most serious offers proved to be those of technical enterprises, two-thirds of which were accepted.

The largest number of concessions, 46, have gone to Germany. England has 24 and the United States 18, and these two latter have obtained the largest percentage share of concessions, as compared with the number of applications, except Japan, which got its concessions through the Peking agreement [of January 20, 1925] with the U.S.S.R. These figures show that the offers of English and American capitalists are the most serious ones, and as political relations become stabilized the prospects of further growth of the concession business with them are becoming more favorable. As to the various activities on which concessions have actually been granted, about two-thirds are in the mining and metallurgical industry, most of these concessionaires being American and English. Of all concessions concluded by the close of 1927, 50 have ceased operation for various causes, while 21 were listed among concessions to joint-stock companies which operate partly outside of the U.S.S.R. Of the remaining 92 concessions, 53 are entirely foreign, 16 are mixed, and 23 provide merely for one or another form of technical service.<sup>51</sup> Of the 53 foreign concessions, 40 are in the mining and metallurgical industry, the latter including all the largest and most important ones. Foremost among them is that developing the English-operated Lena Gold-fields,<sup>52</sup> which works not only gold mines, but also copper, zinc, lead, and iron deposits, as well as forests and water-power. The term of this concession is 30 years, the conces-

<sup>51</sup> The last description is not clear, as it seems unrelated to "foreign" and "mixed." (TRANSLATOR.)

<sup>52</sup> Recently reported canceled. (EDITORS.)



sionaires being obliged to invest 25 million rubles in the business, of which one-half has already been invested. Of the 1,800 puds of gold mined annually in the country, this company produces about 30 per cent.

Another very large concession was that of the Harriman Manganese Mines, recently liquidated because the concessionaire, after two years' work, found that the obligations he assumed were too heavy for him. The Soviet government has guaranteed to refund to him at a specified date the capital he had invested.

Concessionaires in the mining industry are expected to invest some 50 million rubles and in all the concessions taken together over 90 million rubles. Half of this amount has already been invested.

The concessionaires pay to the state various taxes, duties, and proportional rates. The total income to the state from this source in 1924-1925 was 14 million rubles; in 1925-1926 it was 26 million rubles; and it tends upward.

The total output of the concessions is still small, amounting to only about 70 million rubles, but in certain quite important branches, such as precious metals, gold, etc., it promises to increase considerably in the near future.

The reconstruction and betterment plan of the Soviet government makes a more active concession policy for the future an urgent problem. The experience of recent years has shown that concessions have played a useful though small part in this reconstruction of the productive industry of the country. The concession possibilities are very vast, the plan drawn up by the Main Concession Committee requiring about 3 billion rubles for its complete realization. American and European capitalists are in search of vast and permanent sources of such raw materials as petroleum, timber, and zinc; and there being a promise of high profits on the capital invested, they will probably take up more concessions in the near future.

#### I. REVENUE FROM TRANSPORTATION, MAILS, AND TELEGRAPH

a) *Transportation*.—The nationalization of all railroads made the Soviet state the owner and manager of private

lines which had made up about one-third of the whole railroad system (government railroads before the Revolution having had a total length of 42,000 versts or 27,800 miles; and private ones, 23,000 versts or 15,200 miles). All railroad transportation is now in the hands of the state. As a result of the loss of several regions which belonged to the Russian Empire and which had a close net of railways—such, for instance, as Poland—the total length of railroads coming into the possession of the Soviet state sank to 58,500 kilometers, or 36,300 miles. Compared to other countries, the railroad system of pre-war Russia was too little developed for her vast population and territory, and there was a great lack of connection between the center and the frontier lands. There are in existence formulas on which are calculated coefficients of the service rendered to a country by its railroads. For several countries in the pre-war years, 1911–1913, these coefficients were as follows:

#### COEFFICIENTS OF RAILWAY EFFICIENCY

United States .....	34.27
Canada .....	23.69
England .....	16.74
France .....	25.86
Germany .....	21.15
Russia, within her present frontiers.....	6.94

Russia stood very low indeed, and it cannot be said that there has been an appreciable change at present, although the railroads have grown through the completion of those lines on which construction was begun before and during the war. The railway system of the country now measures 76,200 kilometers, or 47,000 miles.

Civil war had a very destructive effect on the railroads. By the close of 1918 the entire Soviet territory had only 30,000 kilometers, or 18,600 miles, and in 1920–1921 the lines in actual operation covered only about 20 per cent of the pre-war mileage. An improvement began in 1923. Freight shipments increased and in subsequent years amounted to the following percentages of the pre-war freight traffic:

RECENT FREIGHT SHIPMENTS COMPARED WITH PRE-WAR  
SHIPMENTS

Year	Percentage	Amount
1923-1924 .....	51	67.5 million tons
1924-1925 .....	63	83.4 million tons
1925-1926 .....	88	116.7 million tons
1926-1927 .....	103	136.0 million tons
1927-1928 .....	113	149.1 million tons

If we measure the work performed by the railroads not only by the number of tons transported but also by the distance traveled by each ton of freight, we find that the pre-war level was exceeded even in 1925-1926, and that in 1927-1928 it had already reached 140 per cent of the pre-war figure. Since the quantity of freight moved has increased in lesser degree, the increase in ton-miles must be due to an increase in the average distance traveled. This shows the influence of the completion of many railroad lines which were under construction and which helped connect the centers with the frontiers; on the other hand, it points to such defects as superfluous carrying of freight (cross-hauling) resulting from lack of commercial efficiency on the part of economic organizations. Many shippers testify that railroad transportation in many regions has reached, and even exceeded, its pre-war level. Thus the number of high-powered locomotives—both from abroad and from the reconstructed domestic works—has grown considerably. In 1913 their number was 27 per cent of all locomotives, and in 1927 it was 45 per cent. The average weight of a train and the number of axles per train have also increased. The growth of freight traffic and of transportation generally has resulted in an increase of receipts. These have been:

## RAILROAD RECEIPTS

1923-1924* .....	678 million rubles
1924-1925 .....	917 million rubles
1925-1926 .....	1,307 million rubles
1926-1927 .....	1,554 million rubles

\* According to the table in chapter five, p. 327, below, these figures appear to include some 10 to 20 million each year from transportation other than on railroads. (EDITORS.)

The bulk of the receipts comes from freight transportation, as passenger traffic yields less than one-fourth. The increase in money receipts in the later years has been due largely to the increased tariffs, but in spite of this, if we take into account the depreciation of the chervonets ruble compared to the pre-war ruble, the present tariffs are lower than the pre-war passenger rates by about 20 per cent and freight by about one-third. The government does not urge any further increase in tariffs on the theory that the cost of transportation is a large component of all prices and that a further increase would, therefore, retard the process of price-lowering, which is held to be of first importance in furthering the general economic plan.

The above figures do not give a complete picture of the performance of transportation lines. The fact that transportation is entered in the state budget as a gross item—that is, with all its receipts and expenditures without any exception—makes an apparent sharp distinction between transportation and industry as budget components. A more precise view is obtained if we deduct the operating expenditures:

#### NET PROFIT FROM RAILROAD OPERATION

1923–1924	.....	37 million rubles
1924–1925	.....	143 million rubles
1925–1926	.....	185 million rubles
1926–1927	.....	248 million rubles
1927–1928	.....	343 million rubles

The rate at which net profits increase is very rapid and indicates that from a financial point of view the reconstruction of railroad transportation is making good progress. During the latest years the rate of progress has slowed down somewhat owing to a general decrease in the volume of trade throughout the country and to a certain inadequacy of the transportation system in relation to present-day requirements. The urgent need of more capital investment in order to guarantee regular service in the face of the country's steadily growing economic demands compels the gov-

ernment to abstain from using railroad profits as budget income. All of the net profit goes into technical improvements, while, in addition, considerable sums are allocated for the same purpose from other budget funds—the latter amounts being destined chiefly for new railroad construction. Before the war such construction was carried out chiefly through bond issues, at home and abroad. At present this method of financing is no longer used, with a single exception which was tried as an experiment. The budget has taken over this item entirely, having absorbed some early railroad loans. The need for new railroad lines is very great. The projected new lines for which plans are more or less completed and those which are about finished or are on schedule for completion total 15,500 kilometers, or 9,600 miles. To carry out this program no less than 1.5 billion rubles are needed. In the next five years two-thirds of this program is to be carried out. The largest of these projects on which construction has been begun is the Turkestan-Siberian line.<sup>53</sup> When this line connects the cotton regions of Central Asia with the grain-producing districts of Siberia, great progress may be hoped for in the development of cotton-growing, which should to a great extent displace grain cultivation in Turkestan.

According to certain estimates, the required investments, together with the expenses for re-equipment of the existing railroads, will reach a total of 1.8 million rubles within the next five years. Are such investments commensurate with the strength of the state budget?

In 1926–1927 state subventions to railroads reached 200 million rubles, and as the budget expands some increase in this item will be possible; but the balance required should come from the transportation system itself; and the profits of this system are so far insufficient. An analysis of the operating ratio, i.e., the ratio of total operating expenses to the total gross receipts, shows that from a financial point of view the transportation system has not been very successful.

<sup>53</sup> Reported to be completed in November 1931. (EDITORS.)

## OPERATING RATIOS OF RUSSIAN RAILROADS

Year	Percentage
1924-1925 .....	84.2 per cent
1925-1926 .....	85.6 per cent
1926-1927 .....	83.8 per cent

In spite of the increase in the quantity of goods transported, the operating ratio has not improved materially. The causes of this defect are to be found in the excessive expenses and in unnecessary and unreasonable long-distance hauling which, at low differential tariffs, does not always pay even for the bare cost of transportation. A more economical management and a more thrifty attitude toward transportation should considerably lower the operating ratio and raise operating profits.

The other branches of transportation which are on the state budget bring in only negligible income. The commercial river and sea fleets have been put on the "home accounting" basis and their receipts are not included in the state budget because they are very small and because considerable capital is required to improve water transportation.<sup>54</sup>

To conclude this section we must point out certain peculiarities in the financing of railroads. Until 1927 their receipts remained in their own possession and were spent according to approved estimates, while surplus profits from the more profitable lines were surrendered to the central government and turned over to those lines which bore deficits. At present all receipts are handed over to State Bank branches which at the same time finance the railroads according to estimates ratified by the central authorities. The advantages of the new method consist in the greater elasticity of such financing and in centralization of management.

*b) Mails and telegraph.*<sup>55</sup>—These branches were in the

<sup>54</sup> We cannot explain the contradiction between the two sentences in this paragraph. The author of chapter five includes in his table (below, p. 327) the receipts from all transportation. Possibly street railways account for the discrepancies. (EDITORS.)

<sup>55</sup> Including telephone.

hands of the government even in pre-revolutionary times, and the state derived considerable profits from them. In spite of the very inadequate service given the people, the government of the monarchy found it possible in 1913 to absorb into the general budget nearly 30 per cent of the gross receipts of these activities. Yet in that year there were in Russia only 16 mailings per capita, while in England there were 223, in Germany 192, and in France 140. The government of the Tsar never considered the fact that well-developed communication service is one of the foremost factors of cultural development in a country, and these enterprises were regarded from a purely fiscal point of view, except in so far as there existed certain apprehensions that closer connection between city and village might favor revolution.

The Soviet government, whose motto is evolution of culture and the participation of the widest possible strata of the people in socialistic reconstruction, is interested in a maximum development of all means of communication. War and revolution have left a burdensome inheritance to the Soviet government. For ten years mails and telegraphs remained without repairs or improvements, and in the first years of the NEP they were found to be only locally organized by individual soviets, without any central management. The receipts had declined greatly, since the number of mailings decreased and many classes of patrons were given mail and telegraph service free of charge or for payments in conventional currency equal to only one-half of its pre-war value. The revival of trade and industry, the cultural development of the peasantry and their participation in the political life of the country, and the greatly increased circulation of newspapers and other printed matter have all added to the work of the mails and telegraphs, and in a number of districts their services have now exceeded their pre-war amounts. The number of ordinary letters in 1926-1927 was more than double the pre-war number, and the circulation of printed matter exceeded the pre-war amount by half. As to other mail, it is still below its former level, namely, about four-fifths of it. This is due to a number of

social and economic consequences of the Revolution, and to the loss of the western provinces which used to maintain a lively connection with the outside world. Telegrams of congratulation, etc., occasioned by family and personal events have become much scarcer, because many ideas in this connection have changed since the Revolution. The decentralization of government and its closer connection with the people have also diminished the need of official correspondence. The insistence of the government on a more economical régime in all the government agencies and undertakings has caused the most expensive classes of mail service to be dispensed with to a great extent.

Besides this, large parts of the population have not even yet reached a position enabling them to avail themselves of the service of communication, although the number of post offices is now almost 13,000, or twice as many as before the war.<sup>56</sup> There are also 2,000 ambulatory postal agencies, and rural mail deliveries have been instituted, the number of carriers in the latter being 17,000; and by these means a peasant may send a letter or a telegram from a village which has no post or telegraph office. Yet in spite of great efforts in this direction, about 15 per cent of the people are still without postal or telegraph service, a fact which once more illustrates the extraordinary backwardness of old Russia in respect to communications.

The government has also established new forms which did not previously exist, such as air-mail lines to an aggregate of 8,000 kilometers, and radio service, which assumes a more and more widely popular character. In 1913 there were only 12 radio broadcasting stations in the country; now there are about 200.<sup>57</sup>

The financial results of communications service improve from year to year, although what was said above as to the attitude of the government prevents the use of these revenues for budget purposes. The results are:

<sup>56</sup> The United States has only 50,000. (EDITORS.)

<sup>57</sup> It is reported that radio receiving stations are "hooked up" with the telephone service lines. (EDITORS.)



RECEIPTS AND EXPENDITURES, COMMUNICATIONS SERVICES

(Million rubles)

	1913	1922-23	1923-24	1924-25	1925-26	1926-27
Gross receipts.....	97.3	28.6	48.7	96.3	136.6	155.9
Expenditures .....	64.8	29.4	52.8	96.1	133.7	160.7
Net receipts (+) and losses (—)....	+32.5	— 0.8	— 4.1	+ 0.2	+ 2.9	— 4.8

Capital expenditures on new construction have been included in this table. Operation alone yields a net profit and shows the following ratio of operating expenditures to total receipts:

OPERATING RATIO, COMMUNICATIONS SERVICES

	1913	1923-24	1924-25	1925-26	1926-27
Net operating profit (million rubles) .....	40.2	1.2	15.5	24.2	23.7
Operating ratio (percentage)	58.5	97.5	85.1	82.0	85.2

Alongside increased net profits we see an improvement in the operating ratio which permits increased investments in new service and improvement of the existing service. Profits may be expressed in the ratio of net income from operation to the fundamental capital invested, which is higher for this group than that yielded by transportation.

CAPITAL INVESTMENT AND PROFITS, COMMUNICATIONS SERVICES

	Capital Funds (Million Rubles)	Net Profit (Percentage of Capital)
1925-1926 .....	214.4	11.3
1926-1927 .....	228.5	10.4

The slackening of the increase in profits during the last year is due, as in other instances, to the fact that the period of reconstruction proper is drawing to its close. When thinking of further progress in this field, we must bear in mind that the quantity of mail will increase more slowly than it did during the first reconstruction years, and that greater expenditures will be needed if we hope to bring

the service, not up to its beggarly pre-war standards, but to those of advanced capitalistic countries.

c) *Miscellaneous*.—To complete our review of the income received from state properties and undertakings, we must mention two more budget items: the sale of materials; and repaid loans.

After the main economic branches of the state had been put on the "home accounting" or self-supporting basis and detailed account was taken of the property of the several trusts, it was found that each of them possessed materials useless to that particular trust but needed by some other. This condition was the result of the countless evacuations, transfers of factories, equipment, etc., during the civil war and the subsequent period. The government decided to take stock of all unused property and put it in a special fund.

After this had been done a special government commission began to sell the accumulated stock, and the sums obtained were added to the receipts of the State Treasury. The resulting salvage exceeded 150 million rubles. However, this resource will soon be completely exhausted.

The second item in question, repaid loans, arises from the loans granted out of budget funds, chiefly to industry. A total of some 200 million rubles has been repaid within the last five years on account of advance of capital and in payment of interest, a figure which represents a rather small portion of the total sum loaned. The loans are returning slowly because it has not yet been fully decided for what industries and for what purposes the grants are to be considered as returnable loans and not as subventions. Spokesmen for industry take the view that sums obtained from the budget for capital expenditures must be considered as subventions, not to be repaid. The Commissariat of Finance believes the opposite. If the question is decided in favor of the latter, a more regular and precise accounting as to industry and the other activities will be promoted, a thing which would be very desirable from the point of view of financial efficiency. In any case, future practice as to grants from budget funds depends on how this question of repayment and of the nature of future grants is settled.

## V. RECEIPTS FROM LOANS

Soviet state credit began its history in May 1922, when for the first time, after the cancellation in 1918 of all old loans, the short-term grain loan was issued.

Conditions were utterly unfavorable for the first loan. Declining currency, a huge budget deficit, undeveloped money circulation, and low personal incomes all prevented people from investing in the loan. Therefore, the state, in urgent need of means, was compelled at first to resort largely to compulsory, or rather semi-compulsory, distribution of the bonds. Such bonds as were purchased voluntarily were for short terms, and their cost to the state was very high, for the popular distrust of them necessitated a high rate of return. Both loans, the short-term ones distributed by compulsion, and the more expensive short-term ones voluntarily purchased by the people, were justified as a great improvement over unlimited paper issues. They helped to pave the way to a reduction of these issues, and when the money reform had been completed the government faced the task of upholding the stability of its new currency and its balanced budget, and this was so all-important that there could be no thought of stopping merely because of the harmful effects of compulsory distribution which had become apparent in the earlier operations.

The budget results of the credit operations conducted during the most difficult first three years were quite considerable: some 300 million rubles were received above interest and amortization payments. From the spring of 1922 to the spring of 1925, a period which should be considered as a first stage in the development of Soviet credit operations, loans, as shown in the table on the following page, were negotiated.

We have given above (pp. 152, 153) a short description of the grain loans and their importance. In the same class was the last of the loans in kind—the sugar loan, which carried no interest and was issued in bonds of 10 lbs., 1 pud, 5 puds, and 25 puds of sugar. Redemption of bonds took place either in money or in kind. Financially the loan was entirely successful, but of no great importance.

## LOANS NEGOTIATED BETWEEN 1922 AND 1925

Description	Amount of Issue	Date of Issue*
First Domestic Short-Term State Grain Loan .....	10 million puds rye	May 1922
6% State Lottery Loan of 1922, (First Lottery Loan) .....	100 million rubles, gold	Oct. 1922
Second Domestic Short-Term State Grain Loan of 1923....	100 million puds rye	Mar. 1923
Non-Interest-Bearing Loan Obligations of the Commissariat of Ways and Communications (Transportation Certificates)	24 million rubles	July 1923
Short-Term State Sugar Loan, 1923 .....	1 million puds refined sugar	Nov. 1923
8% Domestic Gold Loan, 1924...	100 million rubles	Feb. 1924
5% Peasant Lottery Loan of 1924 (First Peasant Loan) .....	50 million rubles	Mar. 1924
6% State Lottery Loan of 1924 (Second Lottery Loan) .....	100 million rubles	Apr. 1924
5% Peasant Lottery Loan of 1924 (second issue) .....	38.5 million rubles	Apr. 1925

\* For terms of these loans see below, p. 273.

The First Lottery Loan was the first large credit operation. It was named the "Gold Loan," because it could be subscribed for in paper currency at the rate of the gold ruble. Gold and silver coin were also accepted in payment. To aid its distribution, collective subscriptions among workers and government employees in a certain percentage ratio to their wages were organized with help of the professional unions. For wages exceeding 90 rubles per month the subscription contribution was 20 per cent of the wage. Since private capitalists were unwilling to subscribe for this loan, and an injustice would have been inflicted on the workers were they to bear the whole sacrifice necessary to prepare

the money reform, it was decided to make its distribution compulsory among the bourgeoisie and other well-to-do classes. Simultaneously with the payment of the property-income tax, or the trade license tax, all private persons and undertakings were obliged to buy certain quantities of the First Lottery Loan bonds which were stamped with the words: "Not negotiable, and not quotable on the exchange." Thus private parties were prevented from legally disposing of their bonds. Contractors and commissioners were also compelled to buy these bonds to the extent of from 15 to 20 per cent of the amounts due them on their contracts. The Second Lottery Loan was distributed in 1924 in the same way. It was not until January and March, 1925, that the limitation on negotiability stamped on the bonds mentioned above and all the legislative and administrative regulations concerning compulsory distribution of both these loans were declared void and the bonds put on an equal footing with all others.

Peasant loans issued during this period were not distributed compulsorily and represented a further development of the grain loans, from which they differed simply in being expressed in money and not in kind. The chief aim of these peasant loans was to reach peasant savings and to educate the peasantry with regard to state loans. Even before the war, public loans found practically no market in the villages and all peasant savings were put into savings banks, which, of their own account, put these funds into public bonds. To awaken the peasantry's interest in loans, they were made receivable in payment of the agricultural tax. Denominations were small, beginning with one ruble, and the purchase price was 85 for 100. The peasant loans were quickly distributed, but chiefly in the cities. There was undoubtedly a real demand for these interest-bearing bonds; but the chief aim—attracting the peasantry—was not achieved. Later, in 1927, a third peasant loan was issued, carrying a number of conditions especially attractive for the peasantry; but that too failed to find response in the villages and was not distributed there any more than the first two. For a short time after buying the obligations the peas-

years, 1925 and 1926. During this period the following loans were issued:

#### LOANS NEGOTIATED IN 1925 AND 1926

Description	Issue (Million Rubles)	Date of Issue
Short-Term State 5% Domestic Loan of 1925.....	10	Feb. 1925
State Domestic Loan for Internal Economic Re- construction, of 1925.....	300	Aug. 1925
12% State Peasant Lottery Loan of 1925 (Second Peasant Loan) .....	100	Oct. 1925
Second 8% Domestic Loan of 1926.....	100	June 1926
State Domestic Lottery Loan of 1926 (prizes in lieu of interest).....	30	Sept. 1926

There was also the second issue of the 5 per cent Peasant Lottery Loan in April 1925, already mentioned in the table on p. 398, but this was not an independent credit operation. It was merely a renewal.

Of the loans listed in the table just above, two, namely, the first and the last, were intended for popular sale in cities, and the interests of this class of holders dictated the terms of these loans. The total amount of the first was kept small, in order to prevent saturation of the market, and to allow time for the market to digest the issues of previous years, which had been distributed by compulsion. The high profit, 28 per cent, obtainable on these bonds, the permission granted to pay for subscription at its conclusion, their immediate acceptance on the exchange, and their extremely advantageous convertibility, as well as the larger interest on them, helped this loan to achieve great success. The subscription exceeded the estimated 10-million-ruble total of the loan five times.

The 30-million-ruble loan (the last in the list) was intended to attract buyers who preferred the possibility of large lottery gains to a steady interest return. The general features of this loan, which met with great response among the most varied strata of the population, were as follows:

It bore no interest, but there were a great many winning numbers, and the chances of gain increased progressively year by year, thus:

	Winning Numbers	Total (Rubles)
First-year drawings .....	9,000	1,479,000
Second-year drawings .....	11,000	1,679,000
Third-year drawings .....	14,000	1,979,000
Fourth-year drawings .....	18,000	2,379,000
Fifth-year drawings .....	23,000	2,879,000
<hr/>		<hr/>
Total .....	75,000	10,395,000

Forty-five thousand bonds of a par value of 100 rubles each were drawn and redeemed at par each year in addition to the number drawing prizes. By this device the number of bonds outstanding was rapidly reduced and the chances of winning increased. For the whole series one bond in every four drew a prize. In the first year the chance of a prize was one in every thirty-three. But in the last year the chance was one in three. In spite of the short period during which the subscription was open, the loan was oversubscribed.

One quite specific credit operation was the "Loan for Economic Reconstruction." The idea behind it was to use the constant balance of current accounts in banks for the long-term financing of economic enterprises which were in great need of such long-term credit. The bonds were turned over as loans to economic organizations of the government in accordance with an approved plan, the holders then presented them to their banks and received against them from 75 to 90 per cent of their nominal value. The interest rate was 10 per cent, payable semi-annually. The credit advanced against these obligations was for three years, but amortization was to begin in one year, so as not to overburden the banks, the whole burden of financing, until 1928, being taken over by the government, which made the required allocations in the budget. The economic machinery of the country was thus reinforced with much-needed capital, the repayment of which the respective undertakings agreed to begin at the end of three years. After that time, a sale of the obligations in the free market was considered, provided the security market should meantime become stabilized and enlarged; but as a matter of fact, excessive banknote issues for the financing of too far-reaching eco-

conomic plans resulted in considerable financial disturbance, and the successful carrying out of the Loan for Economics Reconstruction was impossible.

The Peasant and the 8 per cent Domestic loans were a continuation of similar operations in the preceding period, and did not materially differ from them.

Those of the above-described credit operations which were carried out with strict regard for free, non-compulsory distribution prepared the ground for a new period in the history of Soviet credit, which actually began in the autumn of 1926.

The peculiarity of this new stage lay in the fact that the reconstruction period proper was drawing to a conclusion. The inherited capital was exhausted, and the problem of extensive credits became very urgent. The program of the government and the Party for industrialization demanded great additional means which it was undesirable to attempt to obtain through heavier taxation. It was decided to make an appeal to a wide circle of investors and to apply and further develop those methods of loan distribution which in 1926 had shown their efficacy. In a comparatively short period, 1927 and 1928, a number of very large loans were floated:

#### LOANS NEGOTIATED, 1927 AND 1928

Description	Amount of Issue (Million Rubles)	Date of Issue
State Domestic 10% Lottery Loan of 1927...	100	February 1927
Third State Peasant Lottery Loan of 1927...	25	April 1927
State Domestic 12% Loan of 1927.....	200	June 1927
Third 8% State Domestic Loan of 1928.....	200	June 1927
State 6% First Lottery Loan for the Industrialization of the U.S.S.R. ....	200	August 1927
State Domestic Lottery Loan for the Reinforcement of Peasant Economy.....	150	February 1928
Second State Domestic Lottery Loan for the Industrialization of the U.S.S.R. ....	500	September 1928
State Domestic 11% Loan of 1928.....	300	September 1928
Fourth State 8% Domestic Loan of 1928.....	400	September 1928

The most favorable characteristic of all popular loans



lately issued is their general accessibility. The 10 per cent Lottery Loan, for instance, was issued in obligations of 25 rubles, but each was made up of five shares at 5 rubles, so that partial holders could get the right to one-fifth of a possible prize. Also, easy terms of payment were allowed to individual, as well as to collective holders. This variety of loan is becoming popular in the U.S.S.R., especially among factory workers, and the state encourages its distribution among this class by granting especially easy terms on collective subscriptions. Obligations purchased in this way may be paid for in from 4 to 6 months, and in the case of the Industrialization Loan even up to 7 months; for the Second Industrialization Loan the term of payment is extended through 10 months. Widespread loan propaganda, the co-operation of professional and Party organizations, and the possibility of participating through insignificant monthly payments have all helped to attract millions of subscribers who by purchasing have, as it were, voted confidence in the economic and political system of the Soviet government.

Two other bonded loans guaranteed by the government must be mentioned with the above: the loan of the Central Agricultural Bank and the loan of the Commissariat of Ways and Communications. Neither of these was intended for the masses but rather for the respective state governments, and they aim at enlarging agricultural credit funds and promoting railroad construction.

Among loans should also be mentioned the State Treasury notes, or so-called payment obligations of the Commissariat of Finance. These were intended to help cover periods of low receipts or unusual expenditures by the Treasury, and to keep the cash reserves steadier, but they have outgrown their original purpose and have led to the formation of a floating debt of the state. These notes are for terms of six months and one year at 6 per cent annual interest, and in denominations of 100, 250, 500 and 1,000 rubles. Since the cancelled notes are, in practice, replaced by new ones, they really constitute a long-term loan, the size of which grows from year to year.

## STATE TREASURY NOTES\*

*(Million rubles)*

Years	Amounts Issued	Amounts Redeemed	Increase in the Floating Debt
1922-1923 .....	57.1	19.0	38.1
1923-1924 .....	203.4	192.8	10.6
1924-1925 .....	131.2	102.5	28.7
1925-1926 .....	180.1	179.0	1.1
1926-1927 .....	259.4	234.3	25.1
1927-1928 .....	280.7	297.4	-16.7

\* This tables shows an accumulated total of 86.9 million rubles in six fiscal years, which is not so very excessive. (Errors.)

The increase in the long-term state debt, exclusive of the Loan of Economic Reconstruction, has been as follows:

## LONG-TERM STATE DEBT

*(Million rubles)*

Years	Sold	Redeemed	Increase
1922-1923 .....	94.7	17.1	77.6
1923-1924 .....	198.0	82.0	116.0
1924-1925 .....	128.2	34.9	93.3
1925-1926 .....	143.2	94.5	48.7
1926-1927 .....	316.1	32.1	284.0
1927-1928 .....	675.6	165.4	510.2

The changes in the entire state debt have been as follows:

## AGGREGATE STATE DEBT\*

*(Million rubles)*

Date of Accounting	Realized Loans	Balance of Debt
October 1, 1922 .....	2.5	2.5
October 1, 1923 .....	154.2	118.2
October 1, 1924 .....	555.7	244.7
October 1, 1925 .....	815.2	366.8
October 1, 1926 .....	1,138.5	416.7
October 1, 1927 .....	1,714.0	726.2
October 1, 1928 .....	2,389.6	1,236.4†

\* The Economic Reconstruction Loan is not included in the total.

† We are unable to reconcile this total with the 1,216.7 millions shown by preceding tables. (Errors.)

The per capita burden of state debt grows from year to year, but its absolute size is not great.

**PER CAPITA STATE DEBT**

Date of Accounting	Per Capita Debt (Rubles)
October 1, 1923 .....	0.88
October 1, 1924 .....	1.77
October 1, 1925 .....	2.59
October 1, 1926 .....	2.88
October 1, 1927 .....	4.63
October 1, 1928 .....	8.24
October 1, 1913 .....	49.50

The colossal burden of pre-war debts, amounting to almost 9 billion rubles, was cast off the nation's shoulders by the Revolution. Compared with that burden, Russia's indebtedness today is very slight. In relation to the present yearly income of the nation it is only 3 per cent, as against 50 per cent before the war, or 31.3 per cent, if we consider only the domestic indebtedness. These figures are very promising for the future, provided the wealth accumulated by the people is used in a rational and thrifty manner. It is proper to emphasize here that it was not until the last few years that Soviet state credit emerged from its early stage, in which it meant no more than a redistribution of funds between government branches, and entered its present stage, in which millions of holders are interested in it. Although an analysis of the strata in society to which these holders belong would be very difficult, and of necessity only theoretical, the data on hand enable us to guess at the approximate distribution.

These data show that of the total 726.2 million rubles of debt on October 1, 1927, the share of state-owned and co-operative organizations was about 465 million rubles, and that of private persons—workers, employees, professionals, private capitalists, traders, etc.—140 million subscribed directly and 121 million subscribed by savings banks in which these persons' money was deposited. This private share was

expected to be larger in 1927–1928. According to budget estimates for 1927–1928, about 200 million was to be obtained from the private money market. To judge by preliminary data, this program is being oversubscribed, and on October 1 the total funds attracted into public loans from the private investors will be no less than 400 million. The share held by private capitalists and other people with unearned incomes would be difficult to determine. In any case it does not exceed one-fifth of the total held by private investors. The problem of the Soviet state now consists of increasing the private investors' share in the loans and in reducing that of the state organizations. Figures show that this has been about half accomplished, and the significance of this quantitative success is enhanced by a qualitative improvement as indicated by the steady decrease in the cost of the loans to the state, as follows:

COST OF LOANS<sup>59</sup>

Loan	Percentage
1924 First Peasant Loan .....	40.0
1925 5% Short-term Loan .....	29.1
1925 Second Peasant Loan .....	17.0
1926 Lottery Loan of 1926.....	14.4
1927 10% Lottery Loan of 1927.....	14.0
1927 First Industrialization Loan.....	13.4

The average cost of credit to the state for the next few years may be forecast at about 12 per cent, which may be considered a reasonable figure.

In conclusion we present a general table on the composition of the state debt as of October 1, 1928.

<sup>59</sup> These figures are curiously calculated, and not verifiable. Apparently they were obtained by dividing the total amounts paid back by the amounts received by the treasury, regardless of time. But, from the data given on p. 267, above, the 30,000,000 rubles lottery loan of 1926 cost the government a trifle less than 4½ per cent, not 14.4 per cent, i.e., the government received 28,800,000 rubles for payments spread over five years having a present value, at 4½ per cent, of 28,750,000 rubles. The First Industrialization Loan of 1927 bore 6 per cent interest and ran 10 years, so that even though sold at 96 it is obvious that it cost less than 6.4 per cent, not 13.4. (EDITORS.)

**SUMMARY OF THE STATE DEBT TO OCTOBER 1, 1928**

<b>FUNDED DEBT</b>	<b>Amount of Issue, in Million Rubles</b>	<b>Issue Rate Par 100</b>	<b>Interest Rate</b>	<b>Term, in Years</b>
<i>Lottery Loans:</i>				
First Lottery Loan of 1922.....	100	100	6	10
Second Lottery Loan of 1924...	100	100	6	5
Second Peasant Lottery Loan of 1925 .....	100	100	12	2
Lottery Loan of 1926.....	30	96	..	5
Third Peasant Lottery Loan of 1927 .....	25	100	6	3
10% Lottery Loan of 1927.....	100	96	10	8
First Industrialization Loan, 1927 .....	200	96	6	10
Second Industrial Loan, 1928...	500	...	..	10
Lottery Loan for the Reinforce- ment of Peasant Economy of 1928 .....	150	...	..	..
<i>Interest-Bearing Loans:</i>				
First 8% Domestic Loan of 1924	100	96	8	6
Second 8% Domestic Loan of 1926 .....	100	100	8	5
Third 8% Domestic Loan of 1927	200	100	8	5
Fourth 8% Domestic Loan of 1928 .....	400	100	8	5
12% Loan of 1927.....	200	98	12	10
11% Loan of 1928.....	300	...	11	10
<b>FLOATING STATE DEBT</b>				
Treasury Notes of the Commissa- riat of Finance.....	...	...	6	..
<b>U.S.S.R. GOVERNMENT GUARANTEED LOANS</b>				
Economic Reconstruction Loan...	300	100	10	4.5
Loan of the Central Agricultural Bank .....	100	100	5	1
Loan of the Commissariat of Ways and Communications .....	60	...	9	7
Savings Banks Certificates.....	30	...	..	6

## CHAPTER FOUR

### PRE-WAR AND PRESENT FINANCIAL SYSTEM

*By G. Solovei*

#### I. INTRODUCTION

Any comparative study of the financial systems of different states, or of a single state in two or more periods which are not consecutive, resolves itself, in the final analysis, into a comparison of: (1) the proportion of the state's economic activity to that of the whole country; (2) the methods by which the state obtains the necessary means, the amounts collected, and their social-economic value; (3) the state's expenditures in connection with the country's social-economic and political structure.

The comparative study must necessarily include, besides the state budget, the budgets of local organs, because, first, only an exhaustive analysis of all the public funds, independent of their division between state and local authorities, can give a proper idea of the financial system of the commonwealth; and, second, the resources of the state and of the local organs and the problems confronting them are not static but are subject to frequent fluctuations. Therefore, a comparison between state budgets alone may mean that the investigator is operating with combinations differing in content and therefore not comparable. This fact is of importance in connection with our present topic, for the resources and the problems of the state and the local agencies in pre-revolutionary Russia and in the U.S.S.R. are basically different.

Any comparison of figures, as a general thing, presupposes a common unit of value. The war and the first post-war years caused a sharp decline in the purchasing power of gold. Consequently, corrections relative to money depre-

ciation must be made even in cases in which the country whose finances are being studied has at present a stable monetary system based on gold. Since in the U.S.S.R. the index of prices is higher than in the other principal countries, this consideration is of especial importance, though, of course, such corrections will not be needed where the study is confined merely to a comparison of relative figures.

The Soviet Union is territorially as well as in population somewhat smaller than pre-war Russia, and this fact will have to be taken into account in one way or another, in some portions of the investigation.

In making our analysis we use the data of the pre-revolutionary Russian budget for the year 1913 and of the budget of the Soviet Union for the year 1927-1928. The last year before the war was as typical for the state economy of monarchist Russia as the year 1927-1928 is for the economy of the Soviet Union.<sup>1</sup>

Another feature of the contrast between the budgets chosen for comparison here needs mention by way of introduction to what follows. Pre-revolutionary Russia was a centralized, semi-absolute power. The Soviet Union, on the contrary, is a federation of peoples enjoying not only cultural but also administrative independence. Accordingly, the state budget of the U.S.S.R. is not the budget of a unit state, as was the case in 1913; it is, in fact, the budget of an alliance (federation) on one side, and of the six component republics on the other (Russian Republic, Ukrainian Republic, White-Russian Republic, Transcaucasian Republic, Turkomanian Republic, and the Uzbekian Republic).<sup>2</sup> The budgets of the Russian Republic, of the Ukrainian Republic, and of the Transcaucasian Republic, in their turn, include the budgets of those autonomous states which by treaty form

<sup>1</sup> Not long after this was written the "five-year plan" was inaugurated. This involves, on a large scale, government construction of industrial plants and government absorption of profits and losses from their operation. Consequently, the "typical" character of 1927-1928 will vanish. However, as approximately the culmination of the NEP, 1927-1928 will always have interest. (EDITORS.)

<sup>2</sup> The seventh, the Tadzhik Republic, came into the Union later. (EDITORS.)

part of these three republics. This structure of the Soviet budget creates the differences in the process of budget making before the Revolution and now.

## II. THE BUDGET AND NATIONAL INCOME IN 1913 AND IN 1927-1928

The method of comparing the budget with national income may vary with the object one has in view. If we wish to know what proportion of the total national income flows through the Treasury, we must use the gross budget figures. If, on the other hand, we wish to know the sums required by the government merely in order to fulfill its functional requirements, we must deduct all amounts from the revenue side which cover such items as cost of collection of income, amounts received merely for transfer to subordinate agencies, the operating costs of state undertakings, accounts of which are included in the budget, expenditures for the financial management of state loans, etc.—in other words, we must use the net figures. Such a calculation is given by A. Gordin in the next chapter on "Budget Expenditures of 1922-1923 to 1927-1928." Other items, too, must be included, the most important of which is covered by those Treasury transactions in which service or goods are expended in return for cash paid in by individuals or organizations requiring them on the principle of "service-remuneration," for in this case there is a mere exchange of goods or services for cash and no subtraction from national income. The same is true, to some extent, of customs receipts, though, as these duties have in them an element of true taxation, we have not made these deductions in our calculations.

Another item which must be excluded is the balance, if any, carried over from the preceding year, for this does not represent any deductions from the present year's income.

The national income of Russia in 1913 was calculated by S. N. Prokopovich<sup>3</sup> at 16,400 million rubles. Later calcula-

<sup>3</sup> *A Tentative Calculation of the National Income of Fifty Gubernias of European Russia in 1900-1913*, edited by S. N. Prokopovich, Moscow, 1918, p. 66. The book is in Russian; the title here given is a translation.



tions give a somewhat higher figure, but this is close enough for our purpose. In the Soviet Union periodic calculations of national income are made by the State Planning Commission ("Gosplan"), and for the year 1927-1928, the figure was 25,872 million chervonets rubles.

The national budget in 1913 amounted to 3,431.2 million pre-war rubles (3,417.4 million ordinary, and 13.8 million extraordinary expenses). The net budget in the above-defined sense was 2,466.0 million pre-war rubles.<sup>4</sup> Local budgets in 1913 may be set at approximately 665 million pre-war rubles gross,<sup>5</sup> or, with the deduction of operating costs of municipal properties and undertakings, 500 million. State and local gross budgets together (the so-called consolidated budget) in 1913 amounted to (state) 3,431.2 million plus (local) 665.0 million, a total of 4,096.2 million. The consolidated net budget was 2,466.0 plus 500, a total of 2,966 million pre-war rubles.

The national budget of the U.S.S.R. for 1927-1928 (according to figures for the operations of that year) is 6,652.5 million rubles. The net budget is 4,961.2 million rubles.<sup>6</sup> Local budgets for 1927-1928 equal (as per probable execution) 2,047.9 million; or, with deduction of expenditures for the operation of municipal properties and undertakings, 1,673 million. State and local gross budgets (consolidated budget) in 1927-1928 amount to 6,652.5 million rubles plus 2,047.9 million, a total of 8,700.4 million. However, since the total of the local budgets includes 935.2 million transferred from the state budget, we must, to avoid double counting, diminish the total of the consolidated budget by this

<sup>4</sup> We exclude from the income side of the budget the following amounts which went to cover the corresponding operating costs (in million rubles): state railways, 594.1; state alcohol monopoly, 235.0; mails, telegraph, telephone, 80.2; forest receipts, 34.7; state factories and workshops, 21.2; total, 965.2 million.

<sup>5</sup> See K. F. Shmelev's article, "Financial Policy of Pre-revolutionary Russia and of the Soviet Union," *Vestnik Finansov*, No. 8, 1926.

<sup>6</sup> We have excluded the balance carried forward from the previous year's budget, amounting to 50 million rubles, and also the following amounts which went to cover the corresponding operating costs: Transportation, 1,443.0 million; communications service, 142.3 million; forests, 56.0 million; total, 1,691.3 million.

sum, and it becomes 7,765.2 million. The consolidated net budget is 4,961.2 plus 1,673.0, a total of 6,634.2 million, or with the deduction of the above-mentioned 935.2 million, 5,699.0 million chervonets rubles.

The ratio of the budget to the national income (of the people) in 1927–1928 is higher than in 1913. This is due to the fact that the economic activity of the U.S.S.R. is far more extensive than that of the monarchy. In fact the present economic activity of the state is much greater even than is reflected by the budget figures, for so many of the industrial and other undertakings of the Soviet Union have been placed on a commercial basis and return only part of their profits to the Treasury.

#### THE SIZE OF THE BUDGET IN 1913 AND IN 1927–1928

In order to compare the budget total of the U.S.S.R. with that of the Russian monarchy, we must first convert the chervonets ruble into pre-war rubles, and must then correct for the change in the size of the territory, which was mentioned in section I above. Each of these operations raises a number of questions as to method. Approximate results may be obtained by the following basic operations: (1) reducing the figures of state and local budget for 1913 by 17 per cent, i.e., by the percentage of population which the empire lost with Poland, Finland, Latvia, Lithuania, and others; and (2) dividing the 1927–1928 figures by the wholesale price index of the Central Statistical Office of October 1, 1927 (beginning of the 1927–1928 budget year), which index is 170 (1913 taken as 100).<sup>7</sup>

<sup>7</sup> In this article the author reduces chervonets rubles to pre-war rubles by dividing by 1.70, or in other words uses an index of prices of 170. This is an index of wholesale prices for 1927–1928 published by the Russian statistical bureau. The assumption is that chervonets rubles are at par with gold, a more or less debatable issue. It is an interesting question, further, what significance attaches to any index of prices when the prices of many important commodities are fixed by the government with the avowed object of regulating consumption. As this author says (p. 292, below), "It [the government] pursues a policy of price-lowering as suiting best the interests of the mass of consumers." However, that is for the theoretical statisticians to discuss. It is of interest to note that Dun's index of wholesale prices for the United States stood at 116 in 1913 and at

We thus have:

# STATE AND LOCAL BUDGETS, 1913 AND 1926-1927

Items	1913		1926-1927		
	Amount without Correction as to Territory (Million Pre-war Rubles)	Amount with Correction as to Territory (Million Pre-war Rubles)	Amount (Million Chervonets Rubles)	Amount (Million Pre-war Rubles)	Percent- ages 1926-1927 of 1913 Pre-war Basis
State (national) budget . . . . .	3,431	2,848	6,652	3,913	137.4
Local budget (ex- clusive of sums received from state budget) . . . . .	665	552	1,113	655	118.3
Total . . . . .	4,096	3,400	7,765	4,568	134.4

The budget of the Soviet Union far exceeds that of the monarchy, a fact which is a reflection of the social-economic peculiarities of the Union.

## III. TAX RECEIPTS AND NON-TAX REVENUES IN 1913 AND IN 1927-1928

Financial science divides all receipts of the state into public-legal, i.e., those to which the state is entitled on the basis of its sovereignty; and private-legal, those obtained as a result of specific economic activities. The mutual relation between these two is very significant as characterizing the financial system of a given country. This relationship is shown in tabular form on the opposite page.

The proportion of non-tax receipts, which are a reflection of the state's economic activity, is considerably higher in the U.S.S.R. than in pre-revolutionary Russia.

195 in 1928, or, taking 1913 as the base (or 100), rose to 168, which is only two points below the index used here for 1927-1928 in Russia. One of the other authors uses an index of 175.5, but it appears that the dates do not exactly correspond. Mr. Solovei here uses 147,000,000 as population, following the census of 1926. (EDITORS.)

## COMPARISON OF BUDGET OF RUSSIAN MONARCHY WITH THAT OF THE U.S.S.R.

Receipt Items	1913			
	State Budget		Local Budget	
	Amount (Million Pre-war Rubles)	Percent- age	Amount (Million Pre-war Rubles)	Percent- age
Tax receipts .....	1,876	54.7	357	53.7
Non-tax receipts .....	1,555	45.3	308	46.3
Total .....	3,431	100.0	665	100.0

Receipt Items	1927-1928			
	State Budget		Local Budget	
	Amount (Million Chervonets Rubles)	Percent- age	Amount (Million Chervonets Rubles)	Percent- age
Tax receipts .....	3,270	49.2	909*	44.4
Non-tax receipts .....	3,382	50.8	1,139	55.6
Total .....	6,652	100.0	2,048	100.0

\* Including allocations from state taxes.

## IV. THE TAX BURDEN

One of the most acute questions of comparative financial analysis is that of the tax burden in different countries, or in different periods within one country. The methodology of the subject is as complicated as it is old. At first (as early as in the eighteenth century) the question was formulated as follows: What portion of the national income may the state (and the local governments) levy through taxation without injury to the economic growth of the country? It soon, however, was discovered that the ratio of taxes to national income has no significance by itself, that it is no less important to know how the state expends the taxes it collects than it is to know how much the population has left after payment of taxes. It is important, too, to know whom the state taxes and how it distributes the burden between the various social groups. These questions will be considered later.

We have already given the figures of national income and of taxes in pre-revolutionary Russia and in the U.S.S.R. What is the ratio of taxation to income?

#### RELATION OF TAXES TO NATIONAL INCOME 1913 AND 1927-1928

	Million Pre-war Rubles 1913	Million Chervonets Rubles 1927-1928
National income .....	16,400	25,872
State taxes .....	1,876	3,270
Percentage to national income.....	11.4%	12.6%
Local taxes .....	357	192
Percentage to national income.....	2.2%	0.7%
Total taxes .....	2,233	3,462
Percentage to national income.....	13.6%	13.3%

Under the Soviet Union, the ratio of taxes to the national income is a trifle lower than it was under the Russian monarchy; but, as already stated, this fact alone is not a sufficient basis for a judgment as to the country's tax burden. For this purpose we must ascertain what the per capita remainder of national income is after deduction of the per capita taxes. Obviously, in order to do this, we must convert the figures of 1927-1928 into pre-war rubles, thus:

#### PER CAPITA INCOME AND PER CAPITA TAXES 1913 AND 1927-1928

(Pre-war rubles)

	1913	1927-1928
Per capita share of national income.....	98.0	103.0
Per capita share of state taxes.....	10.8	13.0
Per capita share of local taxes.....	2.0	0.8
Per capita share of all taxes.....	12.8	13.8
Balance of per capita share of national income after deduction of per capita share of taxes.....	85.2	89.2

The per capita share of national income remaining after deduction of the per capita taxes is somewhat higher in 1927-1928 than in 1913; yet even if it were now only equal to 1913, or even a little less, this would not necessarily mean that the tax burden now is heavier than it was under the monarchy. The budget of 1913 served, primarily, adminis-

trative and military needs, while the budget of 1927-1928 gives first attention to all economic and social-cultural needs. It is not a matter of indifference how the state spends its tax revenue. Unproductive expenditure diminishes the share available for productive purposes, while, on the other hand, if taxes are turned to productive purposes, the budget becomes a powerful factor in the country's economic progress. Of course, the statement that the tax burden is less now than it used to be can be justified only if we can prove that the proportion of economically productive expenditures now is larger than formerly. This we shall undertake later.

#### A. DIRECT AND INDIRECT TAXES

The social-economic importance of a country's taxation varies with the distribution of the tax burden between the social groups. In this respect the ratio of direct to indirect taxes is very significant. Indirect taxes are taxes on consumption, and the poorer the taxpayer the more burdensome they are. The following table includes state taxes only, for local taxes in this connection would not have any vital importance.

#### STATE TAXES

	Direct		Indirect*		Total	
	Percent-		Percent-		Percent-	
	Absolute	age	Absolute	age	Absolute	age
<i>Russian Empire, 1913</i>						
Million pre-war						
rubles . . . . .	503.6	26.8	1,372.6	73.2	1,876.2	100.0
<i>U.S.S.R., 1927-1928</i>						
Million chervonets						
rubles . . . . .	1,540.0	47.1	1,730.0	52.9	3,270.0	100.0

\* We have classed with indirect taxes the excises (and for 1913 the receipts from alcohol monopoly also) and the customs duties. Stamp duty and customs duty are classed (for 1913 and 1927-1928) with indirect taxes.

We see that indirect taxes in the state budget for 1913 form 73.2 per cent of the total and in 1927-1928 only 52.9 per cent. The government has evidently succeeded in raising the relative weight of direct taxes more than one and one-half times, in spite of the fact that the national income

in 1927–1928 was not larger than that in 1913 and that the equalizing of incomes in the post-revolutionary period has been unfavorable to the growth of direct taxation.

#### B. TAXATION OF VARIOUS SOCIAL GROUPS

To form a judgment as to the tax burden on the various social strata we have at our disposal data obtained by budget investigations. According to these, taxation of the peasantry before and after the Revolution has been as follows:

#### TAXATION OF PEASANTS—1913 AND 1925–1926\*

Year and Unit	Per Capita Income	Percentage of Tax of Income	
		Taxes	
1913 (gold rubles) . . . . .	57	{ 7.80† 10.86‡	13.7 19.0
1925–1926 (chervonets rubles) . . . . .	94	7.64	8.1

\* For details, see the article by M. Frumkin in *Izvestia*, February 19, 1928.

† Without payment for land.

‡ With payments for land.

The per capita income of the peasantry in 1925–1926 was about 55 pre-war rubles, i.e., almost the same as in 1913, but taxation was only 8.1 per cent as against 13.7 per cent (and if the peasants' payments for land be added, 19 per cent).

The taxation of laboring and non-laboring classes differs sharply in the two periods. This may be illustrated by comparing the income tax at present with the income tax as projected in a bill presented to the State Duma in 1916:

#### INCOME TAX BY SOCIAL CLASSES

Social Groups	Tax on Annual Income				
	1,000 Rubles	3,000 Rubles	6,000 Rubles	12,000 Rubles	24,000 Rubles
<i>In U.S.S.R.</i>					
Workers and employees . . . . .	6	44	166	855	4,246
Persons earning by independent work (professions, etc.) . . . . .	25	306	1,026	2,526	5,776
Persons with unearned income . . . . .	30	390	1,430	3,770	8,830
<i>In pre-revolutionary Russia</i>					
Without group distinction . . . . .	7	45	132	408	1,248

We see that the taxation of workers and employees with a yearly wage of from 1,000 to 3,000 rubles in the U.S.S.R. is now lower than it was proposed to be under the monarchy, while the taxation of the higher groups, in all categories of population, especially the non-laboring classes, is at present much higher.

#### V. TAX RECEIPTS IN 1913 AND IN 1927-1928

Let us turn now to a more detailed analysis of the tax receipts in 1913 and in 1927-1928:

#### COMPARISON OF TAX RECEIPTS—1913 AND 1927-1928

Name of Tax	1913		1927-1928	
	Russian Empire (Million Pre-war Rubles)	Percentage	U.S.S.R. (Estimate in Million Chervonets Rubles)	Percentage
<b>A. Direct taxes</b>				
Land tax .....	25.3	1.3	.....	.....
Agricultural tax .....	....	...	375.0	11.5
Income tax .....	....	...	235.0	7.2
Tax on real estate.....	37.6	2.0	.....	....
Per wagon (for nomads), per chimney, per capita and other, chiefly peasant, levies	24.4	1.3	.....	.....
Trade (license) tax.....	150.0	8.0	790.0	24.2
Tax on income from money capital .....	35.1	1.9	.....	....
Other direct taxes.....	....	...	22.0	0.7
Stamp duties .....	231.2	12.3	118.0	3.6
Total direct taxes.....	503.6	26.8	1,540.0	47.1
<b>B. Indirect taxes</b>				
Customs duties .....	353.0	18.8	260.0	8.0
Excises .....	1,019.6*	54.4	1,470.0	44.9
Total indirect taxes.....	1,372.6	73.2	1,730.0	52.9
Total taxes .....	1,876.2	100.0	3,270.0	100.0

\* Including excise on alcohol and the manufacturing profit from the alcohol monopoly.



VI. DIFFERENCE IN PRINCIPLES INVOLVED IN THE DIRECT  
TAXATION SYSTEMS

Before concentrating on the analysis of direct taxation in pre-war and post-war times, we must stress one difference in principle between them: the system of direct taxation in the monarchy pursued exclusively fiscal aims; that of the U.S.S.R. has, in addition, social-economic aims, such as the regulation of private capital accumulation in favor of the development of the socialized national economic activity. Inasmuch, however, as the payers of direct taxes in the U.S.S.R. are mostly the socialized (state and co-operative) undertakings, this problem is reduced to a question of the redistribution of resources, through the budget, within the limits of the socialized domain itself.

The most characteristic trait of present direct taxation in contrast to that of pre-war Russia is the presence of the income tax. As is well known, it was not until April 30, 1916, that the state Duma voted for the introduction of an income tax, to begin January 1, 1917. The income tax of the U.S.S.R., on the other hand, is the most characteristic expression of the tax policy of the Soviet government.

## DIRECT TAXES IN 1913 AND IN 1927-1928

The budget figures of pre-revolutionary Russia, especially the receipts from direct taxes, did not give a correct idea of the amounts abstracted from the peasant's income; for in addition to money collections by the state, there were various local dues and other payments in the nature of taxation. The peasantry paid so-called zemstvo dues (amounting to 207 million rubles in 1915),<sup>s</sup> volost and village dues for the upkeep of the local administrations, "mir" dues (analogous to the corresponding voluntary taxation practiced in the U.S.S.R., except that mir dues were assessed per capita while the voluntary taxation at present is proportioned to the financial position of the individual taxpayer), and also was bound to various personal services such as team duty,

<sup>s</sup> In 1915 the ruble showed comparatively small fluctuations in purchasing power.

road duty, fire duty, obligation to serve as *sotski*, *desiatski* and *stanovoi* (bailiff and rural police officers).

An exceedingly heavy burden on the peasantry were the rent payments to landlords for leased land. About 40 per cent of all the rural population made use of leased land, and the total rentals reached 375 million rubles yearly, or an average of 25 rubles per household, not counting payments in kind, such as the surrender of half the crops of the leased plot or work for the landlord in lieu of rent.

The only direct tax common to both pre-war and Soviet Russia is the trade-industrial (or license) tax levied on trade and industrial undertakings and personal industrial occupations. So far as its structure is concerned this tax in the U.S.S.R., until its reform in 1928, was very similar to the corresponding pre-war tax. Its effectiveness now, even allowing for the higher value of the pre-war ruble, is much greater than it was in 1913. Should we not draw the conclusion that direct taxation in pre-war times was too low and that the government of the monarchy, had it so desired, might have gone much farther in the way of direct taxation?

The tax on real estate established by the law of June 6, 1910, and levied at the rate of 6 per cent on the net profit from city land and buildings is absent in the U.S.S.R. Somewhat similar to it is the existing local rent levy, or payment for the use of land in cities and towns. Up to 1926-1927 these rent payments went partly into the state budget and partly into local budgets. At present they go entirely into the local budgets. It must be noted, however, that, as the state is the owner of all land in the U.S.S.R., payment for its use can hardly be regarded as a tax in the strict sense of the word and that there is every reason for considering it as a non-tax revenue. The rent payments for 1927-1928 should yield about 20 million rubles.

From the budget of the U.S.S.R. is also absent the tax on income from money capital which used to be levied on interest-bearing securities, both government and private. This tax used to be deducted at the source on the due dates of the coupons. The omission of this tax in the Soviet budget is due to the absence of private securities and to the fact

that government securities, i.e., the state loan bonds, are tax free.

Various taxes per wagon, per chimney, etc., used to be levied on particular groups of the population (for instance, a per wagon tax on the nomad Kirghiz people; the *obrok* on new settlers on government lands, etc.). At present these levies are abolished. There is only a water tax (for irrigation) in the Transcaspiian steppes.

In the direct taxation system of the U.S.S.R. we find a tax on excess profits which was absent in pre-war times. The fiscal importance of this tax is comparatively small. It is levied on persons who derive high profits as a result of specially favorable conditions.

To the group of direct taxes should be added the majority of local taxes both in 1913 and in 1927-1928. The Soviet government retained the previously existing local taxes on dogs, on hack carriages, on buildings (previously called assessment duty), and others. The sum total of these minor local taxes in the U.S.S.R. in 1927-1928 is 115 million rubles.

## VII. INDIRECT TAXES IN 1913 AND IN 1927-1928

Notwithstanding the quite considerable increase of direct taxation in 1927-1928 as compared with 1913, the U.S.S.R. still remains a country in which the ratio of indirect taxes is higher than of direct. The effectiveness of customs duties at present is much less than it was in 1913, a fact which is explained chiefly by the falling off of foreign trade in comparison with pre-war days. In 1913 the total foreign trade which paid customs duties was 2.9 billion rubles, of which 1.4 billion rubles were imports. At present foreign trade is only 40 per cent of its pre-war volume. The customs tariff is a protective one, as was that of pre-revolutionary Russia, the difference between the two lying in the fact that while the tariffs of 1913 protected industry based on private property, the tariffs of 1927-1928 protect socialized industry.

In pre-revolutionary times high import tariffs were the only means required to protect industry from foreign competition. No other barriers were needed. But a somewhat

different situation now exists. Domestic and foreign conditions have created the necessity of having, in addition to protective customs duties, a government monopoly of foreign trade.

The excises are the center of indirect taxation, as they were in 1913. The following is a list of the articles on which excise duties are levied and the relative weight of each in the whole system of excise receipts (data for 1927-1928 taken from preliminary records of execution) :

#### EXCISE TAXES IN 1913 AND IN 1927-1928

Excisable Commodity	1913		1927-1928		1927-1928 (Million Pre-war Rubles)
	Absolute (Million Pre-war Rubles)	Percent- age	Absolute (Million Chervonets Rubles)	Percent- age	
Alcohol (vodka) . . . . .	664.3*	65.2	693.0	47.1	407.6
Liqueurs, wines . . . . .	17.4	1.7	4.9	0.3	2.9
Patent duty on beverages . . . . .	6.2	0.6	2.5	0.2	1.5
Beer . . . . .	22.6	2.2	40.2	2.7	23.6
<hr/>					
Total levied on alcohol, alcoholic beverages, etc. . . . .	710.5	69.7	740.6	50.3	435.6
<hr/>					
Tobacco, cigarettes, etc. . . . .	78.8	7.7	166.0	11.3	97.6
Textiles . . . . .	.....	....	125.0	8.5	73.5
Sugar . . . . .	149.2	14.6	280.0	19.1	164.7
Petroleum products . . . . .	48.6	4.8	38.0	2.6	22.4
Yeast . . . . .	7.5	0.7	14.0	1.0	8.2
Tea . . . . .	.....	....	35.5	2.4	20.9
Matches . . . . .	20.1	2.0	30.0	2.0	17.6
Salt . . . . .	.....	....	3.0	0.2	1.8
Candles . . . . .	.....	....	3.0	0.2	1.8
Rubber overshoes . . . . .	.....	....	24.0	1.6	14.1
Cigarette paper and tubes . . . . .	4.9	0.5	0.9	0.1	0.5
Perfumery . . . . .	.....	....	10.0	0.7	5.9
<hr/>					
Total excises . . . . .	1,019.6	100.0	1,470.0	100.0	864.6

\* 457.6 million rubles excise and 206.7 million rubles profits from the alcohol monopoly.

The first outstanding fact is that the number of excisable commodities at present is greater than in 1913. Excises on textiles, tea, salt (the latter abolished April 1, 1927), candles, rubber overshoes, and perfumery, are all new. The absolute receipts are higher than in 1913; but if we correct for the weakened purchasing power of the ruble, they are less, namely, 846.6 million rubles against 1,019.6 million.

Before the Revolution the excises were levied on finished articles (with the exception of beer, which was taxed on the quantity of malt used in the brewery). The same is true of the Soviet Union.

Formerly the prevailing method of payment was by stamps in the form of bands or labels (on packages of matches, tobacco, cigarette tubes, etc.). Now, as the majority of undertakings which produce excisable commodities belong to the state, this mode of payment is not necessary. For example, as to matches, a ruling was made in 1924 by which the excise was to be met by the factories through payment of assessed amounts to the Finance Commissariat, and the accounting of production and sales is carried out by agreement between the Commissariat of Finance and the Supreme Economic Council. A similar method went into effect on January 1, 1926, in regard to petroleum products. Naturally, such a centralized method of accounting for excisable production and excise payments was impossible in pre-revolutionary Russia, where industry was held in private ownership.

In pre-revolutionary times the government, through its price policy in regard to raw materials for excisable commodities (beets, alcohol, etc.) and its policy of granting easy terms to certain producers of these raw materials (estate owners) and of excisable commodities themselves (sugar manufacturers), put such producers in a favored position. Thus the export of Russian sugar, given its high cost of production, was obviously disadvantageous. But the law introduced a system of export premiums for the production of sugar and so made it possible for the prices at home to be kept up, thus giving extra profits at home to cover the losses from export. In other words, the excise policy of the govern-

ment to a certain extent served to enrich particular groups of producers. Obviously excises in the Soviet Union cannot play such a rôle.

#### VIII. NON-TAX REVENUES IN 1913 AND IN 1927-1928

We have seen above how important a part the non-tax revenue plays in the U.S.S.R. budget. It may now be examined more in detail.

We begin with the railroads. In 1912 the aggregate mileage was 42,853 versts (28,300 miles), government; and 23,000 versts (15,200 miles), private; now, of course, the entire system is government-owned. The receipts of government railways in 1913 (exclusive of operating costs) were higher than the receipts of the total mileage in 1927-1928 (these receipts being about 200 million pre-war rubles). Increasing net earnings from government railroads in general were characteristic of the last years before the war, a partial explanation being the fact that the government postponed necessary expenditures for the improvement of the system; while on the other hand, the lower returns from the U.S.S.R. railways are due to the higher remuneration of labor and to the present low tariffs, passenger and freight, which, if translated into pre-war rubles, are considerably below the pre-war rates. In 1913, the average rate per passenger-kilometer was 1.23 kopecks,<sup>9</sup> and in 1927-1928, 0.67 pre-war kopecks, or about one-half. The freight tariffs of 1927-1928 are only 57 per cent of those of 1913, the average rate per ton-kilometer in that year having been 1.22 kopecks.

The net profits from the service of communications are at present lower than in pre-war years (about 40 million pre-war rubles in 1913 and 18 million pre-war rubles in 1927-1928). This is due to increased costs resulting from the reduction of working hours, and to many other things; also to the fact that the postal and telegraph tariffs, even since their last increase in July 1928, are lower than the pre-war

<sup>9</sup> Roughly, a cent a mile (United States money). In the United States in 1928 the railroads received 2.85 cents per passenger-mile and 1.09 cents per ton-mile on freight. (EDITORS.)

tariffs. For instance, mailing an out-of-town letter in 1913 cost 7 kopecks and now costs 5.8 pre-war kopecks (10 chervonets kopecks).

Income from the forests is much higher than it was before the war, being in round numbers three times that of 1913, thanks first of all to the exploitation of those forests, now government-owned, which used to belong to private persons. Of the total 140 million desiatins of forest in European Russia only 65 per cent formerly belonged to the state (91 million desiatins).<sup>10</sup> At present the whole exploitable forest area of the U.S.S.R. in Europe is 118 million desiatins, and in Asia 209 million desiatins. As the government and private forests together yielded in 1913 a return of 200 million pre-war rubles, it must be admitted that in this respect the U.S.S.R. has fallen behind the pre-war level, one of the principal causes being that the importance of the U.S.S.R. as a timber-producing country (for external trade) has declined since pre-war years. In those years Russia occupied the first place among timber-exporting countries as to both quantity and value.

Russian timber exports, from within the present boundaries of the U.S.S.R., were in 1913, 7,645,000 cubic meters; in 1926-1927 they were 4,116,000.

In contrast to industrial profits of 250 million chervonets rubles in 1927-1928, the pre-war revenue from government works, technical enterprises, and warehouses was only the negligible sum of 4.7 million rubles. The government at that time possessed only certain munitions factories and similar undertakings. It was only as a result of the October Revolution that the state became the owner of all large industry of the country.

<sup>10</sup> The forests of Asiatic Russia, an area of 360 million desiatins altogether, belonged to the government, practically in its entirety, even before the Revolution. [In chapter three on p. 240 it is stated that the forests of the U.S.S.R. cover 800 million desiatins, of which 500 million "are considered worth handling." The figures here are in Europe 140 million desiatins and in Asia 360 million, giving a total of 500 million, of which this author states 118 million in Europe and 209 million in Asia, a total of 327 million, are "exploitable." We cannot reconcile the two statements. (Editors.)]

According to the data of the Supreme Economic Council of the Soviet Union, the ratio of profit to working capital in the nationalized industries in 1927–1928 is 6.8 per cent. The returns from particular branches of industry fluctuate between 18.2 per cent (rubber) and 1.1 per cent (coal). The percentage return of a given branch depends chiefly on the price policy adopted by the government with regard to the various industrial commodities. The return on capital employed in corporate industry in 1913 was 10.8 per cent. Had the Soviet government aimed at obtaining the highest possible profits from its industries, it could easily have reached this figure or higher; but in spite of commodity shortage, it pursues a policy of price-lowering as suiting best the interests of the mass of consumers.

Income from banks in 1927–1928 (78 million chervonets rubles) is in absolute figures higher than the similar income in 1913 (44.5 million pre-war rubles), but in pre-war rubles the two figures are very close. Then, as now, the lion's share of the bank profits fell to the State Bank. In pre-revolutionary years the country possessed a wide system of private banks, while now the importance of these is very small. Why then should the budget effectiveness of bank profits be only the same now as in 1913? The answer must be sought in the fact that the volume of credit operations in the Soviet Union is smaller than it was in pre-revolutionary Russia, and that therefore under the conditions of Soviet economy the part played by banks differs from that found under capitalistic conditions.

There is no figure for 1927–1928 corresponding to the government's share in 1913 in the private railroad profits, which was then 26.6 million rubles. Private railroads are now nonexistent.

The receipts (675 million chervonets rubles in 1927–1928) from state loans are of a very different character from the similar item for pre-war years, since the U.S.S.R. loans do not serve merely to meet deficits, but as regular means of mobilizing the people's accumulated wealth in the interest of the development of productive forces in general and those of the socialized domain of the national economy in par-



ticular. Receipts from loans form 10 per cent of the budget receipts in 1927-1928, and expenditures for financing national economy, exclusive of capital investments in transportation and communication service, will amount in the same year, 1927-1928, to about one-fifth of the total budget expenditures. Hence, not only do the total receipts from loans go for productive purposes but part of the current budget resources as well. None of this can be said of pre-revolutionary public loans, inasmuch as the budget at that time contained only negligible sums allocated for economic needs.

Of the public debt of 8,824 million pre-war rubles on January 1, 1914, some 50 per cent was in foreign loans. The state debt of the U.S.S.R., 1.2 billion chervonets rubles in July 1928, is wholly domestic.

In contrast to the pre-revolutionary loans, those of the Soviet government are intended for distribution among wide circles of working people, employees and peasants, the absence of large capitalists excluding the possibility of distribution to large holders.

In the case of some of the pre-war loans, subscribers for less than 500 rubles each bought only 0.1 per cent of the whole amount sold; subscribers for from 500 to 1,000 rubles bought only 0.5 per cent of the total. In contrast to this the number of holders of Soviet government bonds is estimated at 16 million persons. The subscribers for the First Industrialization Loan (1927-1928 budget year) reach 6 million, with an average subscription of 18-20 rubles per person.<sup>11</sup>

This wide distribution of the bonds among the people was brought about by recourse to many different methods. Among them were: compulsion, as in the case of the earlier loans; making the bonds acceptable for taxes and selling them at a heavy discount; issuing bonds as quasi-subsidies to business enterprises to enable them, either by borrowing on them or selling them, to obtain funds for capital; the

<sup>11</sup> For details concerning the state debt in 1913 and 1927-1928, see below, p. 300.

use of lottery loans with many prizes; and, latterly, by attractive terms and patriotic propaganda.

#### IX. COMPARATIVE STUDY OF BUDGET EXPENDITURES FOR 1913 AND 1927-1928

As a result of the Revolution, the structure of the government machine and its functions in 1927-1928 differ sharply from those of pre-revolutionary times. We have now a different system of administration, a different distribution of departmental functions within the government machine and between the central government and the local agencies. Besides, some of the former problems of the state have disappeared and entirely new problems have taken their place. All this of necessity gives a somewhat artificial or conventional character to any comparative study of expenditures in 1913 and at present. It has already been pointed out that corrections must necessarily be made because of changes in territory covered and in the purchasing power of the respective money units.

The budget of 1913 on its expenditure side was classified exclusively according to departments; in 1927-1928 the classification is by a mixed method—departmental and objective. For the purpose of comparison we make a regrouping of expenditures for both periods, the groups being based on the objects for which the outlays were made. This will be entirely satisfactory, since it will give us an idea of the direction of the chief lines of expenditure, and of the relation between the separate items. Also, whenever necessary, we shall include in our comparative study the local budgets as well as the central, so as to neutralize the disturbing effects of the altered scheme of division of functions between the state and the local agencies.

#### A. OBJECTIVE CLASSIFICATION OF STATE EXPENDITURES IN 1913 AND IN 1927-1928

If we group the state budget expenditures in 1913 and in 1927-1928 under this one scheme, we get the following table:

## PURPOSES OF PUBLIC EXPENDITURES, 1913 AND 1927-1928\*

	Territory of Russian Empire 1913		Territory of the Soviet Union			
	Million Pre-war Rubles	Per- cent- age	1913  Million Pre-war Rubles	1927-1928  Million Cher- vonets Rubles	Per- cent- age	Million Pre-war Rubles as per Index: 170
1. National economy	363.1	15.0	301.4	2,040.7†	41.0	1,200.4
2. Social-cultural ex- penditures ...	300.2	12.4	249.2	623.8‡	12.5	366.9
3. Defense .....	925.8	38.3	768.4	814.5	16.4	479.1
4. Expenditures on loans .....	424.4	17.6	352.3	293.6	5.9	172.7
5. Civil administra- tion .....	377.5	15.6	313.3	240.1	4.8	141.2
6. Deductions into local budgets..	.....	.....	.....	935.2	18.8	550.1
7. Other expendi- tures .....	26.7	1.1	22.0	30.0	0.6	17.6
Total.....	2,417.7	100.0	2,006.6	4,977.9	100.0	2,928.0

\* The total state expenditures in 1913 were 3,382.9 million rubles, i.e., less by 48.3 million rubles than the receipts. In this table we have excluded those 965.2 million rubles of operating costs which were mentioned in footnote No. 4 at the beginning of this chapter. The sum total of state receipts in 1927-1928 (according to preliminary data) was 6,619.2 million rubles, or 4,977.9 million rubles if we exclude the operating costs of transportation, communications, and forests. It must be pointed out particularly that in order to be able to compare the expenditures of the two years in question, we have been obliged somewhat to deviate from the classification of expenditures which is now accepted in the U.S.S.R., and this explains certain divergencies between our data and those of the other authors contributing to the present work. These divergencies, however, have no significance in forming a judgment as to the basic tendencies of the budget expenditures in the two periods.

† Financing of national economy, 1,305.2 million rubles; investments in transportation systems, 557.0 million; investments in communications service, 36.1 million; and expenditures as per estimates of the departments of agriculture, trade, and industry.

‡ Including social-cultural expenditures from various funds (on unemployment, on the homeless-children problems, etc.).

Let us now consider in detail the expenditures of each group.

## B. COMPARATIVE ANALYSIS OF SEPARATE EXPENDITURE GROUPS

1. *National economy.*—Before the October Revolution the national economy of Russia, as of all other countries, was based on the principle of private property. The state left economic functions to private initiative and limited itself chiefly to administrative and military tasks. The sphere of the state's economic activities was very narrow, and these activities were guided mostly by motives other than those of an economic nature. As a result of the October Revolution, the economy of the Soviet Union is largely built on the basis of collective property. All large industry, the bulk of trade, the credit system, and the transportation and communications service have been socialized. Private initiative is still operative in agriculture, but the state keeps before itself the consistent aim to widen the socialized economic domain until it includes the entire national economy.

Such a fundamental change naturally is reflected in the budget, and more than anywhere else in the items of expenditures in the field of national economy.

We have included in this section the direct financing of certain branches of economy, as well as the upkeep of those institutions on which the superintendence of the economic administration devolves. Such establishments are: for 1913, the Ministry of Trade and Industry, and the Chief Office of Land Distribution and Agriculture; and for 1927–1928, the Supreme Economic Council, the People's Commissariat of Agriculture, and the People's Commissariat of Trade, domestic and foreign. In comparing these institutions and placing their costs of upkeep in the same column, we must, however, make the reservation that such a comparison is largely conventional.

First of all, we must stress the great increase of these expenditures in the budget of 1927–1928 as compared with that of 1913. The per capita expenditure increased somewhat more than  $3\frac{1}{2}$  fold.

While the center of gravity of the national economic expenditures in 1913 lay in transportation (construction and improvement of railways) and agriculture, in 1927–1928 it

is shifted to transportation (capital investments), industry, and electrification.

The share of expenses for industry in 1913 is estimated at 2 to 3 per cent of the total for national economy; in 1927-1928 it rises (including electrification and the expenditures on amortization of the loan for economic reconstruction) to about 45 per cent. From this the nature and the social importance of these expenditures become apparent. They serve in the U.S.S.R. to help in the industrialization of the country, and point to the shifting of national economic resources in the direction of socialized economy. As the yield to the budget is much less than it pays out,<sup>12</sup> the redistribution appears to take place to a great extent between the socialized and not fully socialized economic activities and indicates a reinforcement of the socialized activity at the expense of the non-socialized. Such expenditures in the pre-war budget pursued no such aims of redistribution and did not tend to enlarge the collective economy as against the private.

2. *Social-cultural expenditures.*—This group includes the expenditures of all departments, of public education and of science, art, health preservation, social insurance, etc.

Although the per capita amount of these expenditures in 1927-1928 is higher than it was in 1913, it still does not give a correct idea of the full extent of these expenditures, since most of them are carried, not on the state budget, but on the local budgets, and the budget of the organs of social insurance.<sup>13</sup> Nevertheless, as our object is to compare the popular economy of the Soviet Union with that of the Russian monarchy, we leave the social insurance budget outside the field of investigation.

Let us examine first of all that part of this group of expenditures which provides for education, science, and art. To get comparable figures, we include the expenditures of local budgets for these purposes. (See the following table.)

<sup>12</sup> See chapter six, below, on "The Budget in the System of Planned Economy."

<sup>13</sup> The budget of social insurance in 1927-1928 reaches one billion chervonets rubles.

## EXPENDITURES FOR EDUCATION, SCIENCE, AND ART

	State Budget	Local Budgets	Total
<i>Russian Empire, 1913</i>			
Million pre-war rubles.....	165.1	123.6	288.7
<i>U.S.S.R., 1927-1928</i>			
Million chervonets rubles..	300.0	529.8	829.8
Million pre-war rubles.....	176.5	311.6	488.1
<i>Per capita, pre-war rubles</i>			
1913 .....	0.94	0.71	1.65
1927-1928 .....	1.20	2.12	3.32

The per capita expenditures (state and local) for education, science, and art have increased twofold in comparison with 1913. The fact remains indisputable that the expenditures on education in Soviet Russia, as compared with monarchist Russia, have grown enormously. This is borne out, among other things, by the fact that the number of pupils in the territory of the U.S.S.R. increased 36.8 per cent between 1913 and 1927, namely, from 7,235,988 to 9,903,000.

## STATE AND LOCAL EXPENDITURES FOR HEALTH PRESERVATION

	State Budget	Local Budgets	Total
<i>Russian Empire, 1913</i>			
Million pre-war rubles.....	15.0	99.1	114.1
<i>U.S.S.R., 1927-1928</i>			
Million chervonets rubles...	85.6	231.2	316.8
Million pre-war rubles.....	50.4	136.0	186.4
<i>Per capita, pre-war rubles</i>			
1913 .....	0.08	0.57	0.65
1927-1928 .....	0.34	0.93	1.27

As we see, the per capita expenditures here too have increased to almost twice their former size.

The state budget provided 187.1 million chervonets rubles for protection of labor and for social insurance in 1927-1928, equal to 110 million pre-war rubles, as against 120 millions in 1913; but, as we have already noted, in the U.S.S.R. the center of gravity of such expenditures lies not

in the state or in the local budgets but in the budgets of the agencies of social insurance.

3. *Defense*.—As we have seen from table on page 295, the relative weight of expenditures for defense was 38.3 per cent in 1913, and 16.4 per cent in 1927–1928.<sup>14</sup> If we include the local budgets, the figures become:

#### STATE AND LOCAL EXPENDITURES FOR DEFENSE

	State Budget	Local Budgets	Total
<i>Russian Empire, 1913</i>			
Million pre-war rubles.....	925.8	10.1	935.9
<i>U.S.S.R., 1927–1928</i>			
Million chervonets rubles..	814.5	25.0	839.5
Million pre-war rubles.....	479.1	14.7	493.8
<i>Per capita, pre-war rubles</i>			
1913 .....	5.32	0.15	5.47
1927–1928 .....	3.26	0.10	3.36

The per capita of state and local expenditures for defense in 1927–1928 is only 61.4 per cent of the pre-war figure. It is clear, therefore, that the military expenditures now, whether in absolute amount, in per capita amount, or in percentage of the total expenditures, are considerably lower than in pre-revolutionary Russia. This is also shown by data concerning the size of the Tsar's army and that of the U.S.S.R. In 1913 the army numbered 1,300,000, in 1927–1928 but 560,000, and this at a time when the budget of the U.S.S.R. as a whole has already far exceeded its pre-war level.

The loans of the Imperial government were largely due to the military needs of the state, and, strictly speaking, the cost of such loans should also be classed with military expenditures, but for lack of sufficiently definite data to enable us to segregate the expenditures out of the proceeds of the state loans which were made for military purposes we refrain from including this item.

<sup>14</sup> For each of the years under comparison the expenditures of the army sanitary service are classed with expenditures on defense.

4. *Loans and expenditures.*—One of the results of the October Revolution was the canceling of pre-revolutionary loans, and the history of credit operation of the Soviet government begins de novo in 1922. The result is that national debt expenditures, as well as the debt itself, in 1927–1928 fall far behind the pre-war figures.

The state debt on January 1, 1914, was 8,824.5 million pre-war rubles, and on June 1, 1928, 712.3 million pre-war rubles, or 1,211.4 million chervonets rubles. Thus the state debt in pre-war rubles is now only 8.0 per cent of its pre-war amount.

The state debt per capita on January 1, 1914, was 50.7 pre-war rubles, and on June 1, 1928, 8.2 chervonets rubles, or 4.8 pre-war rubles. If the per capita norm of January 1, 1914, be taken as 100 per cent, the debt would be—on June 1, 1928 (in chervonets rubles), 16.1 per cent, or (in pre-war rubles) 9.4 per cent. Thus the per capita state debt is now only one-tenth its pre-war figure.

#### LOAN EXPENDITURES IN 1913 AND IN 1927–1928

	State Budget	Local Budgets	Total
<i>Russian Empire, 1913</i>			
Million pre-war rubles.....	424.4	55.1	479.5
<i>U.S.S.R., 1927–1928</i>			
Million chervonets rubles..	293.6	32.0	325.6
Million pre-war rubles.....	172.7	18.8	191.5
<i>Per capita, pre-war rubles</i>			
1913 .....	2.43	0.32	2.75
1927–1928 .....	1.17	0.13	1.30

The average actual cost of loans in the period 1904 to 1909 was 5.5 per cent. The cost to the Soviet state is much higher but in the last few years shows a steadily decreasing tendency. The Lottery Loan of 1926 cost the state 14.4 per cent, the loan of 1927 cost 14 per cent; and the First Industrialization Loan, 13.4 per cent.<sup>15</sup> The higher cost of

<sup>15</sup> The weakness of the credit of the Soviet government reflected in these high costs is occasioned in part by the newness of the government and consequent fear of instability, in part also by the uncertainty of the



Soviet loans as compared with pre-war times is due to the necessity of actively stimulating savings and encouraging the population to lend to the state. To accomplish this it was indispensable to give these loans a high interest rate and to offer chances of rich premiums.

The total amount of the bonded debt of local governments (cities) was calculated on January 1, 1914 (within the territory of the U.S.S.R.) at 470 million rubles. This debt was canceled, together with the state debt in October 1917, and since then the issue of communal loans by local soviets has not yet been practiced very extensively, and is not likely to be in the future, for this would tend to decentralize leadership in the money market and diminish the redistributive functions of the state budget.

5. *Civil government.*—This group has been made to include expenditures for internal administration, courts, prisons, police (for 1927–1928, militia), higher legislative bodies, statistical bureaus, etc. The ratio of all these expenditures to the total budget of 1927–1928 was 4.8 per cent, as against 15.6 per cent in 1913.

## EXPENSES OF CIVIL GOVERNMENT

	State Budget	Local Budgets	Total
<i>Russian Empire, 1913</i>			
Million pre-war rubles. ....	377.5	94.0	471.5
<i>U.S.S.R., 1927–1928</i>			
Million chervonets rubles..	240.1	269.2	509.3
Million pre-war rubles. ....	141.2	158.4	299.6
<i>Per capita, pre-war rubles</i>			
1913 .....	2.17	0.54	2.71
1927–1928 .....	0.96	1.08	2.04

The Soviet Union is a federated state. It would seem that its federated constitution should increase the cost of civil

success of the new industries on the earnings of which the security must ultimately rest. In stock-market parlance these securities are "unseasoned." To what extent the frequent changes in economic policy create distrust of government bonds it is, of course, hard to say. Finally, the market for these bonds is restricted to Russia, where few rich "investors" exist and where the accumulation of even small savings has gone on for but a few years. But see note 59 on p. 272. (EDITORS.)

government as compared with pre-revolutionary times. In reality, however, this is not the case, a fact which is due to the absence in the Soviet state of excessively high salaries even for the more highly qualified employees of the government machine. In monarchist Russia these salaries reached tens of thousands of rubles; for certain groups of the upper nobility and in the court circles state employment meant the possibility of carefree and luxurious living without serious work. State employment for these classes was a kind of sinecure. Naturally nothing of this kind is possible in the Soviet Union, where a persistent curtailment of administrative expenditures is one of the fundamental aims of financial policy.

The details of some of the basic items in this group of expenditures deserve examination.

a) *Higher government institutions.*—For pre-revolutionary times, we class with this group the upkeep of: (1) the imperial court, 12.8 million rubles;<sup>16</sup> (2) the State Council (“Gosudarstvenny Soviet”), 1.9 million rubles; (3) State Duma, 3.3 million rubles; and (4) State Chancery, the Chancery of the Council of Ministers, and the Emperor’s Chancery for the receipt of special petitions, together, 22.2 million, all in pre-war rubles. For 1927–1928 we have taken the estimates of the Central Executive Committee and the Soviet of People’s Commissars of the Union (exclusive of the expenditures for learned educational institutions) and the Republics, which amount to 19.7 million chervonets rubles. Converting these into pre-war currency, we get 11.6 million pre-war rubles spent for higher government institutions in 1927–1928, or 0.08 pre-war rubles per capita of population, as against 22.2 million pre-war rubles, or 0.14 per capita, for 1913.

b) *Foreign relations.*—Expenditures for foreign relations are composed of the cost of upkeep of the foreign office at home and its representatives abroad, such as ambassadors,

<sup>16</sup> The estimate of the Ministry of the Imperial Court for 1913 calls for 17.3 million rubles, of which 4.5 million rubles must be classed with expenditures on education, science, and art, as they went for the upkeep of academic theaters, the Academy of Arts, etc.

ministers, consuls, agents, etc. The total and the per capita amount of these costs for the two years compared are as follows:

## EXPENDITURES FOR FOREIGN RELATIONS

	All Expenses	Expenses of Representatives Abroad
<i>Russian Empire, 1913</i>		
Million pre-war rubles.....	11.5	4.6
<i>U.S.S.R., 1927-1928</i>		
Million chervonets rubles.....	7.7	4.9
Million pre-war rubles.....	4.5	2.9
<i>Per capita, pre-war rubles</i>		
1913 .....	0.06	0.027
1927-1928 .....	0.03	0.019

Foreign relations expenditures at home and abroad are much lower in 1927-1928 than they were in 1913. This is due chiefly to the lower remuneration of the Soviet diplomatic personnel and the smaller number of branches of the Soviet diplomatic service abroad.

c) *Courts and prisons.*—Expenditures of this group may vary considerably, depending on the cultural level of the population, the degree of activity of the administrative organs, the remuneration of judicial workers, the nature of operations against lawbreakers, etc.

## EXPENDITURES FOR COURTS AND PRISONS

	State Budget	Local Budgets	Total
<i>Russian Empire, 1913</i>			
Million pre-war rubles.....	90.6	8.4	99.0
<i>U.S.S.R., 1927-1928</i>			
Million chervonets rubles...	22.3	29.0	51.3
Million pre-war rubles.....	13.1	17.6	30.7
<i>Per capita, pre-war rubles</i>			
1913 .....	0.52	0.04	0.56
1927-1928 .....	0.09	0.12	0.21

The figures are much lower now than before the war, owing to a number of causes, such as lower salaries, the

settlement of a considerable number of labor disputes by professional instead of by legal institutions, the employment of a system of compulsory labor for lawbreakers, and other factors resulting from the economic and political structure of the Soviet state.

d) *Financial administrative costs.*—The structure and the problems of the financial apparatus of the Soviet Union are radically different from those in pre-revolutionary Russia. For example, State Control, which used to be an independent department, is now a part of the People's Commissariat of Finance. An entirely new department has appeared: the People's Commissariat for Workers' and Peasants' Inspection, which, to a certain extent, performs the functions of financial control. It takes part in the making of the budget, enforces economy in the working of the government machine, etc. The manufacture and sale of vodka, which was formerly within the competence of the Head Office of Non-tax Receipts and Government Sales of Beverages, of the Ministry of Finance, has now been entirely separated from the financial department and handed over to a special institution independent of the state budget, the Tsentrospirt. The growth of non-tax receipts and changes in the nature of budget expenditures inevitably brought about corresponding changes in the grouping of activities within the competence of the financial administration. In addition, the administration of customs, which was formerly in the hands of the Ministry of Finance, is now under the Commissariat of Trade. These facts make it extremely difficult to compare the expenditures of financial administration at present with those of pre-revolutionary Russia and to establish the cost of collection of revenue in the two years in question.

The estimate of the finance departments (of the Union and the republics) for 1927–1928, gives 65.1 million rubles. If we add to this the 4.5 millions for the administration of customs, we get 69.6 millions. On the other hand, if we exclude from the estimate of the pre-revolutionary Ministry of Finance everything which has no direct bearing on the problems of financial administration (pensions, upkeep of

the office of the Separate Detachments of Frontier Guards, on the Chinese Eastern Railway, various reimbursements and subsidies from the Treasury, etc.) we get the amount of 90.4 million pre-war rubles. If the above-mentioned 69.6 million chervonets rubles are converted into pre-war rubles, we get 41.1 million rubles. Thus the per capita expenditures for financial administration amount to 0.52 pre-war rubles in 1913, and to 0.28 rubles in 1927-28, i.e., about one-half the pre-war figure. Our calculations are, of course, only approximate; but there seems to be no doubt that the financial apparatus of the Soviet Union is less costly than that of pre-war Russia. Unfortunately, lack of material will not permit us to determine how far this is due to a different distribution of functions between the central government and the local authorities, then and now.

A mere statement of the amounts spent by the state on financial administration in 1913 and in 1927-1928 is, however, an insufficient basis for a judgment as to the cost of collection of revenue in general and of the tax-revenue in particular, for the financial apparatus performs a number of other functions besides collecting revenue. The scope of these other functions is, of course, wider in the Soviet Union than in monarchist Russia, but they were in existence even then. Among them may be classed the making-up, the execution, and the controlling of the budget, the regulation of money circulation, the supervision of the credit system, the state credit operations, etc. Consequently, to establish the cost of revenue collection, we should know what part of the expenditures of the financial department is connected with this cost, and in particular, what part is connected with the receipt of the tax income. Dividing the question, we may attempt to ascertain what share of the expenditures for the financial administration was due to the collection of direct taxes, of indirect taxes and of customs duties, respectively.

The problem of the cost of collecting revenue has not been studied even in its most general aspects, either in pre-revolutionary Russia, or in the Soviet Union. Still less has the question been raised in the particular aspect in which we are here interested, i.e., the comparison of the two pe-

riods. What are the difficulties of such a study? In the first place, we do not know the extent to which the cost of upkeep of the police under the empire, who performed many of the functions of tax collectors, should be included in the figures, nor is there now a clear segregation of certain tax-collecting functions performed by house committees in large cities, by various institutions and enterprises (deductions of taxes from workmen's and employees' salaries), by the militia, etc. Moreover, the Commissariat of Finance is a so-called "united" commissariat, i.e., it exists for the whole Union and for each one of the federated republics, and its estimates are not made on the basis of the functions of its separate departments. Thus there is no means of knowing how much of the general expenditures of the Commissariat of Finance goes for the administration of separate activities, such as those connected with direct taxes, indirect taxes, etc. In order to get such data, a special investigation would have to be undertaken.

We do know, however, how much was spent for the administration of customs and for financial control in the two years under comparison. The comparative data follow.

*e) Customs administrative costs.*—In 1913 the expenditures on the customs (exclusive of the upkeep of the frontier guard) amounted to 13.5 million rubles; in 1927–1928 they were 4.5 million chervonets rubles (2.6 million pre-war rubles), a considerable decrease. This results from many causes, such for instance as the changes in the frontier, resulting from war and revolution, the limitation of foreign trade, lower salaries of the customs personnel, etc.

*f) Financial control.*—The functions of financial control in pre-revolutionary times were performed by a special department—the State Control. The head of this department had the powers of a Minister and was a member of the Council of Ministers. As to the Soviet Union, these functions rest with the State Financial Control which is a part of the Commissariat of Finance (of the Union and the republics) and is organized as a separate department with an independent estimate. Furthermore, the U.S.S.R. has a united People's Commissariat of Workers' and Peasants' Inspec-

tion, which to a certain extent also fulfills the functions of financial control. These functions are only part—and a small part at that—of the whole round of duties of the Commissariat of Workers' and Peasants' Inspection, for this Commissariat has as its chief problem the rationalization of the whole state government machinery, including that part of it not included in the budget (state industry and trade, banks, etc.). It would, therefore, be incorrect to charge expenditures for the upkeep of this department wholly to the cost of financial control. Yet even if we were to allow this methodological error to creep in, the cost of the machinery of financial control would even then be lower than in pre-war Russia. In 1913 the upkeep of the State Control consumed 12.1 million rubles; in 1927–1928 the upkeep of the Office of Financial Control cost 6.4 million chervonets rubles (3.7 million pre-war rubles). If we were to add to these 6.4 million rubles the cost of upkeep of the Commissariat of Workers' and Peasants' Inspection of the Union and the republics, amounting to 7.2 million chervonets rubles, we still would have only 13.6 chervonets rubles, or 8 million pre-war rubles. It is perfectly evident that the apparatus of financial control in Soviet Russia costs much less than it did in pre-war Russia, in spite of the fact that in the Soviet state budget a huge part is played by expenditures for national economy, i.e., expenditures whose control requires a highly qualified type of control officers.

Thus, the cost of the financial administration as a whole, the cost of the customs, and the cost of financial control, are all lower for 1927–1928 than for 1913. We are, therefore, justified in assuming that the general cost of collecting revenue, and the cost of collecting taxes in particular, is lower in the Soviet Union than it was in pre-war Russia.

#### X. ALLOCATIONS TO THE LOCAL BUDGETS

In pre-revolutionary Russia there was no connection between the state and the local budgets, unless we consider as such the comparatively small subvention for education out of the so-called Fund of Peter the Great (Ministry of

Education). It amounted in 1913 to only 14 million rubles. In the budget of the U.S.S.R. appropriations to local institutions (as allowances from state taxes and as subventions for purposes of education, health preservation, etc.) make up the considerable sum of 935.2 million rubles (550.1 million pre-war rubles), or 18.8 per cent of all expenditures. (See table on p. 295, above.)

#### **XI. THE RATE OF GROWTH OF THE PRE-WAR BUDGET OF RUSSIA AND OF THE SOVIET STATE BUDGET**

During the five-year period 1908-1913, the state budget of Russia grew by 28 per cent. The state budget of the Soviet Union (together with transportation and the communications service) was 1,460 million rubles in 1922-1923. It grew to 6,552 millions in 1927-1928. Thus in the five years 1922-1923 to 1927-1928 the consolidated state budget of the U.S.S.R. increased more than fourfold. This extraordinary rate of growth has been due to the intensive rate of reconstruction of the national economy.<sup>17</sup>

<sup>17</sup> The author has apparently overlooked the fact that since the Soviet government began in a small way in 1922, the rate of growth measured in percentages of the small original base must necessarily appear large. (EDITORS.)



## CHAPTER FIVE

### BUDGET EXPENDITURES DURING THE YEARS 1922-1923 TO 1927-1928

*By A. M. Gordin*

#### I. PECULIARITIES OF THE U.S.S.R. BUDGET AND ITS CONNECTION WITH ECONOMIC CONDITIONS

When the transition was made to the New Economic Policy, the economic reconstruction of the U.S.S.R. progressed rapidly and the wounds inflicted by many years of warfare began to heal.

Although the economic life of Russia is being rebuilt on an entirely new social basis, and its principles, organization, policies, and methods differ from those of capitalistic societies, the country nevertheless still makes use of markets and currency as means of economic intercourse.

Since 1921 taxation has been re-established; a stable currency unit has been created; industry has been excluded<sup>1</sup> from the general budget; and a normal working of the budget is assured, this being one of the most significant features in the country's economic life. Over and above the usual functions of a state budget, such as providing for the upkeep of the government, supplying the needs of defense, public education, etc., the budget of the Soviet state has been called upon to meet a number of additional needs. When examining it, we must bear in mind that it is more than a purely administrative budget, in that it is one of the most important means of controlling as well as financing the country's economic life. This affects both the volume and

<sup>1</sup> This can mean only that appropriations for industry are segregated from government expenses in the narrower sense. See chapter four above. (Editors.)

the structure of the budget. Besides, it must be remembered that the state owns vast properties and undertakings—all of the railways, extensive forest tracts, underground wealth, such as petroleum, coal, ores, etc., large credit institutions, mercantile fleets, and by far the largest part of all the existing industries. All these necessarily influence the budget. However, they are not reflected in the budget wholly and directly, since most state undertakings work as economically independent units, and, apart from paying taxes and obtaining loans, their only connection with the budget is their obligation to make payments to the State Treasury out of their profits. The railways, mails, telegraph, and telephone form an exception to this rule, being conducted on the basis of preliminary estimates, and their entire receipts and expenditures being entered in the budget.

Gross rent receipts from forests, underground wealth, and other properties also go into the budget, thus considerably increasing its receipts from sources other than taxation.

Naturally, the development of the U.S.S.R. budget, as of any state budget, is dependent on the general rate of economic progress in the country. This connection is peculiarly important in the case of the Soviet state, because no other budget has such wide scope, and its dependence upon economic conditions is nowhere so direct. Nowhere else does it play so great a part in the development of the country's economic life.

Therefore, before we begin to describe the progress of the budget, it will be necessary, by quoting a few figures, to give an idea of the economic background of this development.

Basic figures for the state's economy, beginning with the year 1922–1923, are shown in the table on the opposite page.

These figures illustrate the progress of the country's economic reconstruction and help us understand the causes of the rapid growth of the budget. We must also take into consideration that the budget is more intimately connected with industry than it is with agriculture. The latter still

## GENERAL STATISTICAL DATA

	1922-1923	1927-1928	Percentage Increase
Population (million) .....	132.6	150.3	13.3
Established capacity of regional electric power stations (thousand kilowatts) .....	442	814	84.2
Gross output of industry (million pre-war rubles) .....	1,931	7,607	294.0
Coal mined (million tons) .....	11.5	36.3	215.6
Petroleum produced (million tons) ....	4.7	11.3	143.0
Gross agricultural production (million pre-war rubles) .....	7,900.0	13,186.0	66.9
Railway freight transportation (billion ton-kilometers) .....	23.5	89.4	280.4
Exports (million pre-war rubles) .....	133.0	558.0*	320.0

\* For 1926-1927.

retains to a great extent its "natural"<sup>2</sup> character, and even in 1927-1928, in spite of the fact that its commercial activity is increasing year by year, only 38 per cent of the output was disposed of commercially. This commercial weakness of agriculture is due to its distribution among a multitude of small farms, to the insufficient crops yielded by the fields, and to the slight development of ways of communication. It would be out of place to dwell here on the historical roots of our agricultural backwardness. It suffices, for the purposes of analyzing the budget, to point out that the "natural" character of many agricultural branches stands in the way of a proper taxation of agriculture, that it prevents the accumulation of money among the village population and consequently the latter's participation in state loans, and that it keeps down the receipts of the railroads, etc. This situation makes clear precisely why it was the development of industry that enabled the budget to progress.

## THE BUDGET AND THE NATIONAL INCOME

The importance of the budget in the economy of the U.S.S.R. can be shown by comparing the progress of the budget with that of national income.

<sup>2</sup> See note 1, pp. 75-76, for definition of "naturalization."

## NATIONAL INCOME\* AND STATE BUDGET†

	1924-1925	1925-1926		1926-1927		1927-1928	
	(Million Cher- vonets Rubles)	(Million Cher- vonets Rubles)	Percent- age of Growth	(Million Cher- vonets Rubles)	Percent- age of Growth	(Million Cher- vonets Rubles)	Percent- age of Growth
National income	16,949	22,515	32.8	23,645	5.1	25,872	9.4
State budget							
(gross) . . . . .	3,113	4,216	35.4	5,626	33.4	6,653	18.2
Among the latter,							
taxes . . . . .	1,481	2,014	35.9	2,832	40.6	3,270	15.4
State budget							
(net) . . . . .	1,621	2,088	28.8	2,992	43.3	3,746	25.0
Percentage of							
gross budget							
to income . . .	18.3	18.7	....	23.8	....	25.7	....
Percentage of							
taxes to in-							
come . . . . .	8.7	9.0	....	12.0	....	12.6	....
Percentage of							
net budget to							
income . . . . .	9.5	9.3	....	12.6	....	14.5	....

\* The national income is calculated by the Gosplan (State Planning Office) on the basis of the value of goods produced.

† In this table, as well as in the subsequent ones, an adjustment has been made on account of the trade-license tax as reformed in 1928, when it was made to include a surtax for the benefit of local budgets. The budget figures in this and the other tables up to the year 1927-1928 are based on the Financial Control data. Those of 1927-1928 are given according to preliminary accounts of execution.

The budget has grown 113 per cent in an interval of three years, considerably exceeding the rate of increase (about 50 per cent) in national income, and being, for the year 1927-1928, 25.7 per cent of the national income.

The importance of the budget is thus very great; about one-fourth of the national income passes through it. This alone, however, does not enable us to judge of the burden of government on the people's economy, for a considerable share of the budget income is an integral part of that economy and not a fiscal superstructure on it. Besides, part of the tax receipts are returned for the financing of the people's economy. This point will be touched upon later. First, we shall analyze the movement of the per capita balance of national income after payment of taxes for the years used above:

**CHANGES OF THE FREE INCOME BALANCE IN RUBLES, BEING  
THE PER CAPITA INCOME MINUS TAXES**

	1924-1925	1925-1926	1926-1927	1927-1928
National income* .....	120.6	156.7	160.9	171.9
Taxes† .....	10.5	14.0	19.2	21.7
Balance† .....	110.1	142.7	141.7	150.2

\* Population taken as on January 1 of each year, according to data of the Central Statistical Office of the U.S.S.R.

† The actual deduction for taxes from the per capita income is smaller than the one given here, and the free balance is larger, for part of the taxes come from state undertakings.

Though quite inadequate in itself, the free balance of per capita income in the U.S.S.R. nevertheless shows considerable increase, and this fact, in connection with the rapid rise of agricultural and industrial productivity—and consequently of the national income—makes it obvious that the large tax payments have not prevented the progress of the national economy and the increase of the people's welfare. When we take up the analysis of the individual components of the expenditure budget it will become evident that such results have been due to the advantageous use made of the public funds.

**II. GENERAL CONDITIONS OF DEVELOPMENT OF THE STATE BUDGET**

A comparative analysis of the budget for several years is difficult, because during these years important shifts in the classification of revenues and expenditures have occurred, so that every comparison is necessarily adjusted to some extent. We have tried to reduce this difficulty to a minimum by indicating in footnotes the more important assumptions and adjustments made. Another difficulty is that in 1922-1923, and for part of 1923-1924, the budget was executed in a falling currency, and this necessitates recalculation in chervonets rubles. Besides it was not until 1924-1925 that payments in kind were abandoned. These constituted 55 per cent of the budget receipts in 1922; 10.5 per cent in 1922-1923; 2.9 per cent in 1923-1924. Again, it was not until 1925-1926 that the country began to have a fixed yearly budget, which covered all of the Union's territory.

The peculiar circumstances mentioned above not only complicate the statistical formulation of the figures to be compared but also lend a different aspect to every one of the budgets under consideration.<sup>3</sup>

The first years of the period in question were years of reconstruction in the country's finance and economy, and the budget expanded rapidly. In the later years, in which there are indications that this reconstruction process is completed, the development of the budget has been more normal. Still, the rate of growth of the budget per se remains high, and exceeds that of the national economic activity. Here a number of new factors step in which accelerate the growth, such as: the development of state credit; the higher rentability (profitableness) of state undertakings; improved methods in administering state properties; some forcing of taxation; and, finally, the natural results of government investments in industries made in preceding years. On the whole, it must be said that the structure of the budget as it is today assures its normal expansion, without any necessity of additional specific measures for that purpose, and a more rapid expansion than that of the national income, since that part of the income which is most closely connected with the budget—receipts from railroads and industries—grows more rapidly than the national income taken as a whole. An increase in the commercial character of agriculture is a favorable factor, because the income of the state budget depends in large measure on the proportion of the peasant's product which he sells in the market.

While in 1922–1923 Treasury issues of paper money yielded to the budget 394.1 million rubles, or 26.9 per cent of the total income, this ratio fell in the very next year to 5.5 per cent; and in 1924–1925 such issues were eliminated altogether. This was one of the greatest triumphs not only for the budget but for the whole national economic life. The

<sup>3</sup> Budgets for 1922–1923 to 1926–1927 are given from final execution data, and that for 1927–1928 from preliminary materials. [As explained elsewhere the government authorizes frequent departures from the "preliminary budget" and then at the close of the period prepares a "final" or "executed" budget statement. (EDITORS.)]

reform and expansion of the budget between 1922–1923 and 1923–1924 made it possible to abandon the exhausting toll of paper issues, and this renunciation had in turn the effect of helping the budget to expand further. In the autumn of 1922 the chervonets currency made its appearance, and in the spring of 1924 it entirely replaced the old paper money. It was the conviction—which proved correct—that a currency reform would have a salutary effect which prompted the inauguration of this reform at a time when a budget deficit was still unavoidable. The monetary reform of S. J. Witte (Imperial Minister of Finance) was introduced in 1896–1897 after the budget had been free from deficits for eight years. The economic conditions of 1923–1924 required a simultaneous solution of both problems. Transition from a paper currency, which was depreciating at a rate beyond control, to a sound banknote currency proved a life-giving force throughout the entire economic realm; the uncontrolled rise of prices stopped, economic relationships were stabilized, the people received an incentive to save, and normal foresight, calculation, and accounting became possible again. An improvement of the budget followed not only as an ultimate result of the general economic soundness but also as an immediate effect of the reform. Before the monetary reform, depreciation of money had caused a continuous depreciation of all receipts from taxes and other sources, the law operating too slowly to adapt tariffs, duties, etc., to the daily changing rates. The work of government offices was rendered extremely difficult, as the nominal appropriations to the various departments always exceeded the effective receipts. These conditions dictated the abrupt renunciation of paper issues; and the year 1924–1925, in which the caption “Paper Issues” disappeared from the budget, marked an important step in the upward development of the Soviet financial system.

Turning now to the question of the nominal and real growth of the budget, we see that because of the rise in prices, which continued up to 1926–1927, the real growth of the budget was less than the nominal. In the two years 1926–1927 and 1927–1928, the difference between “real” and

the "nominal" disappeared. The lower cost of industrial production, the improvement of agriculture, and the government's persistent efforts to lower the general price level in the country, to raise the people's welfare, to quicken the commercial sales, and to strengthen the U.S.S.R. as a competitor in the world markets—all these brought some positive results. The government, whose receipts were now in "big rubles," gained greatly through the stabilization of money because it could forecast its requirements. The forced growth of the budget during the last few years, accomplished by raising taxes and increasing railroad and customs tariffs, has not, however, prevented a lowering of the prices of commodities. On the contrary, we may assume that the active part taken by the government in monetary affairs has helped to lower prices.

### III. THE MAIN TREND OF THE STATE'S EXPENDITURES

Inasmuch as the state budget is not limited to a strictly defined circle of functions, as is the case in bourgeois states, but includes in its sphere of influence all the basic problems of national economic life, directly financing industries, transportation, and agriculture—it will be difficult to apply the "sufficiency principle"<sup>4</sup> to the Soviet budget. Of course, whenever greater expenditures are necessary, the forcing of resources is not always an obstacle; it is always possible to increase revenue to some extent, and in this sense expenditures control revenues. However, having assumed the task of financing the country's economy by providing capital, the government has disproportionately increased its need of revenues, and therefore its expenditures can no longer, to any large degree, determine the volume of reve-

<sup>4</sup> The so-called principle that government or public revenues are determined by the necessary expenditures; that a government, unlike a private individual, who must fit his spending to his income, may, through its power of taxation, fit its revenues to its expenditures. The author's argument seems to be that the Soviet government, unlike a bourgeois government, having theoretically possession of all income in the country, determines its expenditures accordingly; that is, "cuts the suit to the cloth." (EDITORS.)



nues. The financial policy, therefore, is always one of feeling for the optimum line between the strain on the sources of revenue and the urgency of the demands made on the budget; the principle of sufficiency is always corrected by the principle of revenue possibilities.

The energetic economic development of the last few years imposes a rapid growth on the budget; and the increase of budget appropriations plays, in turn, quite an important part in the entire economic progress of the U.S.S.R.

We shall touch later upon the main items of expenditure in the budget; for the time being let us consider only the general changes in the gross and the net budgets, meaning by net budget the expenditures for the government itself, as distinct from expenditures on the economic activities of the people.

We may simplify our study and ascertain the net budget by excluding from the budget the expenditures for the operation of railroads, mails, telegraph, and telephone; the amounts handed over in one way or another to local budgets; the cost of financing the industries of the country; and the cost of loans. In this way we may ascertain approximately those resources on which the government depends for the satisfaction of the needs of government in a narrow sense. The movement of the net budget, thus conceived, as compared with the gross budget, will then be as follows:

#### GROSS AND NET BUDGETS, 1922-1928

	1922-1923	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
Gross budget, million rubles . . . . .	1,480	2,400	3,113	4,216	5,626	6,653
Net budget (million rubles) . . . . .	908	1,250	1,621	2,088	2,992	3,746
Percentage growth of gross budget . . . . .		62.1	29.7	35.4	33.4	18.2
Percentage growth of net budget . . . . .		37.6	29.7	28.8	43.3	25.2
Percentage, net budget to gross budget . . . . .	61.3	52.1	52.1	49.5	53.2	56.3

While the gross budget reflects the whole volume of the government's finances, the net budget shows the directions in which the more active developments have been made. Since 1925-1926 the net budget appears to have taken an increasing part of the gross budget. The downward trend in the proportion going to the net budget during the first years, 1922-1923 to 1925-1926, was due to a considerable increase in the allowances for the local budgets, increased appropriations for financing industries, and a material increase in state loans. In 1926-1927 a slowing down, and even a decrease of these factors, occurred; and this, coupled with an improved operating ratio of the railroads and the communications services (mails, telegraph, telephone), added appreciably to the available resources of the budget. The sharp increase in state loan expenses on account of the enlarged public debt in 1927-1928 was no longer able to stop this favorable trend of the net budget and it then gained a few more points in relative proportion. The development of the fundamental items of expenditure are set forth in the table on the opposite page.

Transportation expenditures appear as the largest item in the budget. But it must be remembered that the budget shows both the gross operating receipts and the gross operating expenses. Hence this entry contains costs of operation as well as expenditures for the betterment and expansion of the railroads. The government's investment in transportation facilities has increased materially.

The expenditures for the financing of national economy are conspicuous. This is an item which continues to grow. Its significance is discussed in the next chapter.

Expenditures for administration and defense are declining. Their present size cannot be considered large when compared to the corresponding items before the war in Russia and to the tendencies prevailing abroad.

Expenditures for social and cultural needs, although increasing in absolute amount, take about the same proportion of the whole each year. The cost of the national debt is becoming an appreciable figure, reflecting, as it does, the increase of that debt.

## STATE EXPENDITURES\*

	(Million rubles)								Percentage of Total Expenditures		
	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28†	1922-23	1924-25	1927-28		
Central government .....	14.9	47.0	78.7	101.0	112.1	122.3‡	1.0	2.5	1.8		
Internal government and justice	132.3	160.2	182.3	261.4	303.3	340.5	8.9	5.9	5.1		
Finance .....	61.8	111.8	96.4	99.9	97.8	92.5	4.2	3.1	1.4		
Foreign relations .....	4.6	8.3	9.3	10.6	8.9	8.0	0.3	0.3	0.1		
Defense .....	230.9	402.4	450.8	606.2	691.5	814.5	15.6	14.5	12.3		
Social and cultural needs§	96.9	136.1	207.4	278.9	361.0	414.9	6.5	6.7	6.3		
Transportation .....	521.3	729.3	934.3	1,339.8	1,746.4	2,000.0	35.2	30.1	30.2		
Communications service .....	29.4	52.8	96.1	132.7	160.5	178.4	2.0	3.1	2.9		
Financing of national economy	240.1	266.2	409.7	563.3	904.0	1,305.2	16.2	13.2	19.7		
State debt .....	4.2	75.2	69.7	117.6	101.0	293.6	0.3	2.3	4.4		
Subventions to local budgets..	77.9	242.1	425.6	636.4	916.3	935.2	5.3	13.7	14.1		
All other .....	48.5	128.1	43.3	6.9	17.6	23.8	3.3	1.4	0.3		
State reserves .....	17.5	38.6	98.8	45.0	150.7	90.3	1.2	3.2	1.4		
Total expenditures .....	1,480.3	2,398.0	3,102.4	4,199.7	5,571.1	6,619.2	100.0	100.0	100.0		
Excess of receipts over expenditures .....											
Balance .....	1,480.3	2,399.9	3,112.7	4,215.6	5,626.1	6,652.5					

\* Adjustments have been made for the change (1927-1928) in the accounting of the local budgets' share of the trade-license tax.

† Preliminary data pending execution.

‡ Expenditures for the Central Government, that is, for the Central Executive Committees and Soviets of Commissars of the Union and of the individual republics, are actually 19.7 million rubles, or 23.4 million, if the expenses of the State Planning Office are included. The table gives this item as 122.3 million rubles because allocations from the reserve fund designed to cover above-the-estimate expenses arising during the year are included in the estimate of the Soviet of People's Commissars.

§ Including Central Office costs of education on public carriers. [N.B. Perhaps refers to the cars carrying teachers, lecturers, cinemas, and other means of popular instruction, sent throughout the railway systems, especially to small places where other means of instruction and entertainment are not available. See also p. 324 and p. 325, below. (Editors.)]

Compared with similar items abroad and in Russian pre-war days, the appropriations for local budgets may seem high. These expenditures are explained in other chapters and will be further analyzed below.

We now turn to a comparison between expenditures and revenues, in order to ascertain the sources from which the main expenditures are met. The classification will have to be somewhat artificial, but it does not lack importance in studying the entire economic aspect of the budget.

### CONVENTIONALLY ASSUMED CLASSIFICATION OF STATE REVENUES AND EXPENDITURES\*

(Million rubles)

REVENUES				
Source	1925-1926	1926-1927	1927-1928†	
Taxes .....	1,574.8	2,065.3	2,489.8	
Transportation and communica- tion .....	1,481.6	1,753.2	1,916.6	
Other revenue not derived from taxes .....	445.5	598.9	695.1	
Credit operations‡ .....	43.4	218.2	407.2	
	<hr/>	<hr/>	<hr/>	
Total .....	3,545.3	4,635.6	5,508.7	
EXPENDITURES				
Object	1925-1926	1926-1927	1927-1928†	
Government, defense, cultural needs, subventions and other	1,437.7	1,591.0	1,805.4	
Transportation and communica- tion .....	1,510.9	1,950.3	2,242.4	
Financing of national economy	608.3	1,054.7	1,401.2	
	<hr/>	<hr/>	<hr/>	
Total .....	3,556.9	4,596.0	5,449.0	

\* Without the excess of receipts over expenditures.

† Preliminary data pending execution.

‡ Surplus, exclusive of all payments connected with credit operations.

It appears not only that the government avoids diverting the revenues brought in by its properties and undertakings

to cover its consumption expenses, such as social and cultural needs, but that it uses some of its tax revenues for financing other activities. For this purpose, 137.1 million rubles were set aside in 1925-1926; 474.3 million rubles in 1926-1927; and 684.4 million in 1927-1928; and 956.6 million are to be set aside in 1928-1929, according to preliminary estimates. Thus there is a continuous upward trend. These figures understate rather than exaggerate the extent to which tax receipts are being used for the financing of the country's economy, for some capital investment has come to be written into the column of consumption expenditures. Paradoxical though this seems, we may assert that in the U.S.S.R. budget taxes serve to accumulate capital. This fact should not be underestimated when studying the burden in our country. From the point of view of the country's economy as a whole, taxes that serve to accumulate wealth (save money) can hardly be considered as a burden upon that economy.<sup>5</sup>

#### IV. GOVERNMENT EXPENDITURES PROPER

##### A. ADMINISTRATIVE EXPENSES

The expense of managing a country as vast as the U.S.S.R. cannot but be great. Besides, the economic structure of Soviet Russia necessitates considerable expense for the administration of the economic life, since the regulating influence penetrates, so to speak, into every pore; and because the larger industries and a great part of trade—not to mention the transportation and the communications services—are under the immediate direction of their supervising commissariats. If, nevertheless, administrative expenses do not play an important rôle in the budget, that is due to the fact that financial administration is, comparatively speaking, inexpensive and that strict economy is being exercised in expending funds on the government machine.

The figures bearing on this are as follows:

<sup>5</sup> The same point is made and supported by a different analysis in chapter six, by Mr. Sokolnikov. (EDITORS.)

## MOVEMENT OF EXPENSES FOR ADMINISTRATION

(Million rubles)

Item	1922-1923	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
Central and general governments.	68.7	138.0	167.6	218.5	252.6	272.4
Executive administration .....	83.1	77.5	102.7	154.5	171.7	198.4
Financial administration .....	61.8	111.8	96.4	99.9	97.8	92.5
Total expenditures on government ....	213.6	327.3	366.7	472.9	522.1	563.3
Percentage of whole budget .....	14.4	13.6	11.8	11.2	9.3	8.5*

\* These ratios are based on the total budget as given in the table on p. 317 of this chapter. (EDITORS.)

We observe here a steady decrease in the proportional cost of administration which must be recognized as a favorable factor, since it has permitted an enlargement of the productive expenditures. The results of increasing the efficiency of the government administration have been especially conspicuous in financial branches. In this connection an important factor has been the possibility of centralizing the collection of a great many revenue items resulting from the concentration of industry in the hands of the state. The cost of the financial administration was, in 1927-1928, 1.4 per cent of the budget and 2.8 per cent of the total tax receipts. In England, the expenses of the fiscus were in 1925-1926 2.0 per cent of the budget; in France in 1925, 4.6 per cent; in Italy in 1925-1926, 4.9 per cent.<sup>6</sup>

## B. EXPENDITURES ON DEFENSE

The cost of defense is, in even a greater measure than that of administration, an overhead item in national accounting. This, of course, does not mean that these items are superfluous, but only emphasizes their unproductive nature. Under the conditions existing in the U.S.S.R. it is improper to

<sup>6</sup> It must be remembered that the huge public loan expenses of the European states lower this percentage somewhat artificially; otherwise it would be even higher. [The source of these figures is not given. (EDITORS.)]

regard the whole of the budget expenditures as a deduction from national income. The budget itself supports many branches of the productive enterprises, and since part of the tax receipts are spent for economic purposes it seems more just to measure the burden of government costs by the ratio of defense plus administration costs to the national income. To be more precise, the only real deduction from the national wealth as a whole is that portion of the tax receipts which is spent for the upkeep of the administration and the army.

**THE COST OF ADMINISTRATION AND DEFENSE, COMPARED  
WITH THE NATIONAL INCOME**

(Million rubles)

	1924-1925	1925-1926	1926-1927	1927-1928
1. National income . . . . .	16,949	22,515	23,645	25,872
2. Expenditures on administration and defense . . . .	818	1,079	1,214	1,378
Percentage, item 2 of item 1	4.8	4.8	5.1	5.3

Thus, in modification of the statements made at the beginning of this chapter as to the increase of the budget relative to the national income, it must be said that this increase results from an expansion of the redistributive or economic activities of the government, the budget expenses of which, in the narrower sense, have become stabilized. The percentage of expenses for administration and defense cannot be said to be excessively high, especially since we have included in the administrative costs the expenses of departments which serve also economic needs. The ratios in France and Italy are 6.0 per cent and 6.4 per cent, respectively.

The direct expenditures for defense (Commissariat of War and Navy, special military units, and the army health department) have developed as follows:

**BUDGET COSTS OF NATIONAL DEFENSE**

	1922-1923	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
Total expenditures (million rubles).	230.9	402.4	450.8	606.2	691.5	814.5
Percentage increase from year to year . . . . .		74.3	12.0	34.5	14.1	17.8
Percentage of the budget . . . . .	15.6	16.7	14.5	14.3	12.3	12.3

In spite of the imposing rate of growth of the total expenditures for defense, due to the necessity of safeguarding the Union's frontiers from the threat of invasion, the relative weight of the cost of defense in the whole budget has been declining, and it is considerably below the total military expenses of pre-war Russia and the proportion of the budget devoted to defense under Tsardom. A comparison may be made between the corresponding figures of the Soviet Union and other European states:

PER CAPITA COST OF NATIONAL DEFENSE\*

(Pre-war rubles)

Great Britain		France		Italy		U.S.S.R.	
1912-1913	1925-1926	1914	1925	1913-1914	1925-1926	1913	1926-1927
15.33	16.47	18.62	10.83	6.58	5.86	5.44	2.42

\* G. Solovet, *State Budgets*, Moscow, 1928.

Evidently, the total cost of defense cannot be said to be excessive for the U.S.S.R., but considering the paucity of the country's financial resources this compulsory and unproductive expense is naturally burdensome on the national economic life. Were it possible for us to liberate ourselves from these *faux frais* which oppress the social welfare of all peoples, many millions would be freed for productive purposes.

C. EXPENSES FOR SOCIAL-CULTURAL NEEDS

These expenditures play no very important part in our state (central) budget, since the common schools are supported from local budgets and so is the medical service. The social insurance organizations bear a most important part of the cost of health preservation. Industry, transportation, professional unions, etc., show in their estimates considerable sums spent for cultural needs. In order to make a proper comparison, we have excluded from our analysis the costs of public education on public carriers.<sup>7</sup> The item for public education in the state budget covers chiefly the learned institutions, higher educational institutions, part of

<sup>7</sup> See note to table on p. 319, above. (EDITORS.)



the secondary professional schools, and experimental institutions. The item of health preservation includes expenses for scientific investigating institutions, psychopathic hospitals, combating epidemics, public dispensaries, etc.

The provisions in the state budget for cultural requirements may be seen from the following table for the year 1927-1928:

STATE BUDGET EXPENDITURES AND THOSE OF SOCIAL INSURANCE ORGANIZATIONS ON EDUCATION AND HEALTH

Source	Education		Health	
	Amount Spent (Million Rubles)	Percentage of Total	Amount Spent (Million Rubles)	Percentage of Total
State budget .....	300.0*	36.1	85.5	14.8
Local budgets .....	529.8	63.9	225.0	39.1
Social insurance organizations .....	....	....	265.0	46.1
Total .....	829.8	100.0	575.5	100.0

\* Including education on public carriers, 53.8 million. (See note to table on p. 319, above.)

Thus, in the domain of education, the state does play an important though not the leading part, the learned institutions and higher education being dependent on it for their development.

In the domain of health preservation the state plays only a small part—which, however, does not mean that the tasks it does accomplish in this direction are unimportant. Here, as in public education, the state supports the organizing centers of cultural work and the more important institutions which serve the whole country or entire regions of it, and thus helps the normal functioning of the local institutions supported by the local budgets.

The development of the state budget expenditures for social-cultural purposes may be shown in two ways: by giving the expenses of the government branches specially concerned with these problems; or by giving the expenses for social-cultural requirements of all the departments carried

on the budget. The latter figures can be given only beginning with the year 1925-1926.

#### BUDGET EXPENDITURES FOR SOCIAL-CULTURAL NEEDS

	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28
Total expenditures* of the social-cultural government branches (million rubles) . . . . .	96.9	136.1	207.4	278.9	361.0	414.9
Percentage of growth from year to year. . . . .	...	40.4	52.4	34.4	29.4	15.0
Percentage of the total budget . . . . .	6.5	5.7	6.7	6.6	6.4	6.2
Total expenditures of all government branches for social-cultural needs (million rubles) . . . . .	...	...	...	402.4	497.6	585.3
Percentage of growth. . . . .	...	...	...	...	23.6	17.6
Percentage of the total budget . . . . .	...	...	...	9.5	8.8	8.8

\* Including the upkeep of scientific institutions connected with higher government organs, expenditure of special funds, and education on public carriers.

While we see a rather rapid increase in the absolute size of this item, we may note that in percentage to the whole budget it is stationary. It is only in the budget projected for 1928-1929 that the increase of these expenditures, in connection with the strengthening of the financial system of the Union and a projected vigorous development of technical education, shows a greater rate of increase than that of the total figures of the budget.

Although during the last few years the volume of expenditures for education, health preservation, and similar purposes has increased, it is still at too low a level in comparison with the actual requirements of the people and the country's economic needs. Further progress in this domain, as in other domains of our social life, is dependent upon the economic betterment of the country.

#### D. TRANSPORTATION EXPENDITURES

The expenditures of the Commissariat of Ways and Communications fall into two unequal parts: the expenses

of the railroads; and those of all other kinds of transportation. Each of these also may be subdivided into operating expenses and capital investments.

The railroads may be considered first. The sea and river fleets are not budgeted in the same way as are the railroads. The upkeep and development of the internal waterways, as well as the care of the most important highways, are duties of the Commissariat of Ways and Communications. These items are small in comparison with the railways in the estimates of that Commissariat.

Below are the essential data on the development of transportation expenditures as compared with receipts:

# RESOURCES AND STRUCTURE OF THE TRANSPORTATION EXPENDITURES\*

(Million rubles, except as indicated)

	1922-23†	1923-24	1924-25	1925-26	1926-27	1927-28
Transportation receipts,						
all kinds .....	...‡	678	917	1,307	1,554	1,679
Among these, the railroads	372	668	908	1,286	1,533	1,668
Budget subventions.....	...‡	51	17	33	192	321
Operating expenses of rail-						
roads .....	373	631	765	1,101	1,285	1,325
Operating ratio .....	100.3	94.5	84.2	85.6	83.8	79.4
New capital invested in						
railroads .....	...‡	55	97	148§	351§	480
New capital expended on						
other transportation...	...‡	6	16	28	31	77
Total new capital invested	...‡	61	113	176§	382§	557
Percentage of the total ex-						
penditures .....	...‡	8.3	12.1	13.1	21.6	27.8
Total expenditures on						
transportation .....	521	729	934	1,340	1,746	2,000

\* Exclusive of the Central Office of Education on Public Carriers. Discrepancies between some of the figures above and some of the foregoing tables are due to the conditions of budget and transportation accounting.

† In view of the incompleteness and imperfection of the data we give only the most trustworthy figures and omit the others.

‡ No information.

§ The budget of 1926-1927 includes 48 million rubles expenses actually made during 1925-1926, but covered from the budget of 1926-1927.

The fact that demands our attention in the first place is the very considerable increase in allotments from general

budget resources for subventions to transportation. In 1927–1928 these exceeded 300 million rubles. This is a material increase in the capital investment in railroads and other kinds of transportation. This increased investment of capital in railroads brought about the improved operating ratio in 1927–1928, but it has nevertheless proved insufficient to meet the most urgent demands for new construction and for increased carrying capacity on the existing railroads. Hence there has been an increase of subventions from the outside, i.e., from the other branches of national economy, the money coming into the budget from various sources and then being allotted, as subventions, to transportation. This is characteristic of the redistributive function of the budget, of which we have spoken before. That the railroads are returning to normal conditions is manifested in the improved operating ratio, i.e., in the decline of the operating expenses in proportion to operating receipts. If we mention, in addition, that between 1924–1925 and 1927–1928 the average monthly wages of transportation workers rose from 44.5 to 73 rubles, the decrease in the operating ratio becomes still more significant, although its present level is still unsatisfactory.

To be sure, we observe an unfavorable tendency in the operating ratios abroad: in England, from 63 per cent in 1907–1911, to 83.6 per cent in 1925; in the United States from 68 per cent to 74 per cent.<sup>a</sup> Still the fact remains that the ratio of receipts to expenditures of transportation in Russia is not entirely favorable. The causes lie both on the side of receipts—relatively small freight and passenger business—and on that of the expenditures—higher wages, etc. However, the general trend of development is a satisfactory one which along with the increase of subventions has made it possible to increase investments up to 27.8 per cent of the sum total of expenditures, as compared with the 12.1 per cent of 1924–1925. This is the third fact which we desire to emphasize in this connection.

<sup>a</sup> The operating ratio of American railroads before the World War varied from year to year by but a few points above or below 66 per cent. It rose to 94 per cent in 1920 and dropped again to 72.6 per cent in 1928. (Editors.)

Thus the development of transportation expenditures permits us to say that capital is being accumulated and that service is improving qualitatively. We are forced to limit ourselves here to these cursory observations in reviewing transportation expenditures, for a full treatment of the subject would require an independent investigation.

**E. EXPENDITURES FOR COMMUNICATIONS SERVICE: MAILS,  
TELEGRAPH, TELEPHONE**

The observations which have been made with regard to transportation expenditures may be repeated without any substantial changes with regard to the expenditures in the service of communication. However, while transportation occupies a leading position in the total of expenditures, those of the communications service formed, in 1927-1928, only 2.9 per cent of the budget total.

Before 1925-1926 this item was developing more rapidly than the others, and its relative proportion in the budget was rising persistently, having reached 3.2 per cent, as against 2.0 per cent in 1922-1923. Later it slowed down and dropped into a less important place in the budget. In 1925-1926 the intensive reconstruction process was completed, so far as the main branches of the mail and telegraph services were concerned. The standards of 1913 were left behind, and further development proceeded along the line of better organization.

The main data touching the expenditures of the communications service are given in the table on the following page. The table shows an increase in capital invested, a betterment of the operating ratio, and an increase of budget subventions to reinforce the resources of the activity itself. Still, the operating ratio so far has been higher than the pre-war one (58.5), owing, as in the case of transportation, to the low rate of payment for mail and telegraph services. Thus, for instance, the average receipt per one mailing in 1913 was 6.11 kopecks, and in 1926-1927, 7.04 kopecks, despite the fact that the index of wholesale prices in 1926-1927 was 175.5 compared with 100 in 1913.

# **RESOURCES AND STRUCTURE OF COMMUNICATIONS SERVICE EXPENDITURES**

(Million rubles, except as indicated)

	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28
Expenditures of the Commissariat of Posts and Telegraphs proper....	28.7	48.7	96.1	132.7	156.7	171.9
Budget subventions.	0.7	4.1	....	....	3.8	6.5
Total resources (budget) ....	29.4	52.8	96.1	132.7	160.5	178.4
Operating expenses. ....*	47.5	80.9	111.9	133.0	142.4	
Operating ratio (in percentage) .....*	97.5	84.0	84.4	85.2	82.8	
New capital invested .....	5.3	12.1	20.8	34.0	35.0	

\* No information.

As a result, mails and telegraph have lost their fiscal importance; on the other hand, however, the low cost of this service to the people has served to stimulate the use of postal and telegraph facilities, so that the loss to the budget is in this case converted into a gain in national welfare and in the cultural progress of the country.

## **V. EXPENDITURES FOR FINANCING THE NATIONAL ECONOMY**

The large size of these expenditures is the budget's most characteristic (i.e., socialistic) trait. The financing of the national economy through the budget performs two functions: first, it mobilizes resources and puts to active use the small individual hoards obtained partly through public loans and partly through taxation; second, it redistributes the available funds within the state economy, i.e., between various branches of industry, trade, etc.

The budget includes special provisions to take care of undertakings which are not closely connected with the budget for strictly governmental purposes, as well as providing capital investments in the transportation and communications service, in the manner explained above, and

also for regulation. The part played in the budget by expenditures of an economic nature is most fully illustrated by the following table:

**NATIONAL-ECONOMIC EXPENDITURES OF THE BUDGET**

(*Million rubles*)

	1922-23	1923-24	1924-25	1925-26	1926-27	1927-28
Financing of national economy. . . . .	240.1	266.2	409.7	563.3	904.0	1,305.2
Transportation and communications service . . . . .	550.7	782.1	1,030.4	1,472.5	1,906.9	2,178.4
Regulation and organization of economy* . . . . .	83.1	77.5	102.7	154.5	171.7	198.4
Other expenditures† . . . . .	32.3	75.7	135.3	44.8	150.7	90.3
<b>Totals . . . . .</b>	<b>906.2</b>	<b>1,201.5</b>	<b>1,678.1</b>	<b>2,235.1</b>	<b>3,133.3</b>	<b>3,772.3</b>
Percentage of the total budget. . . . .	61.2	50.1	53.9	53.0	55.7	56.0

\* This division includes three departments: agriculture, industry, trade.

† This includes state reserve funds, purchase of precious metals, etc.

The bulk of the funds is directed to industry, then to agriculture, electrification, and other branches. The financing is effected largely through the banking system in the form of long-term loans, or else the sums allowed are transferred directly to the capital funds of the undertaking concerned.

Without stopping to particularize as to the development of individual items of budget financing—for the factors which operate in each case and in each year are so numerous and varying that their enumeration alone would transgress the limits of a chapter—we shall merely point out that the distribution of resources has followed the general plan of industrializing the country and strengthening state and co-operative undertakings, as well as assisting, through credit, the least prosperous among the peasantry.

As an illustration let us remark that in 1927-1928 the financing of state industries consisted in guaranteeing to

them a budget subvention equal to 49 per cent of the proposed capital investment, which was 46 per cent of the total (state and other) industrial investments. The corresponding figure for district electric power stations is 58 per cent, and for the whole of agriculture 10 per cent (in the liabilities of the banking system for agricultural credit, the budget subventions formed, on October 1, 1927, nearly 61 per cent). These figures, naturally, are not absolutely exact, but they give an idea of the extent to which economic problems are being solved with the help of the state budget.



## CHAPTER SIX

### THE BUDGET IN THE SYSTEM OF PLANNED ECONOMY—THE BACKGROUND OF THE "FIVE-YEAR PLAN"

*By G. Y. Sokolnikov*

In any commonwealth the state budget represents a financial plan of the state economy. Its structure is dictated by the necessity of assuring a balance of receipts and expenditures in a well-ordered fashion.

In states where economic life is organized on the principles of private property, the budget includes economic undertakings only in limited activities, such as the railroads, telegraphs and telephones, where these are in the hands of the state, or fiscal monopolies, as of tobacco, alcohol, etc. The operations of these nationalized undertakings are in such cases included in the state budget, i.e., they are co-ordinated with the state's financial plan. But these are merely exceptions to the rule; and industrial, trading, banking and other enterprises, which in general belong to private persons and corporations, work out their respective programs without regard to the state's finance plan (budget), with which they stand in no relation except for taxation obligations, or sometimes for the receipt of government subsidies, or the carrying out of government orders. The programs of operation and the financial plans of such individual undertakings and corporations are entirely free of any interrelationship between themselves, and co-ordination between them is reached, as far as it is reached at all, only through a certain control exercised by the institutions of finance and credit, except in such cases as those in which there happens to be definite dependence of some enterprises

on others, or some connection arising out of the distribution of their capital stocks.

The Soviet economic and financial system is different. Here the interrelations of economic undertakings belonging to the state, or controlled by it, in industry, agriculture, transportation, banking, trade, etc., as well as their relation as a whole to the state budget are determined by their subordination to the principles of planned economy. The budget finance plan is thus one of the elements of planned economy, one among a number of elements; in fact, it is the basic and the controlling element, the most extensive as to scope and exercising the greatest influence over those fields of administration and economics with which it comes into contact.

The system of planned economy is, naturally, still in its initial stages of formulation and application. The tremendous task of co-ordinating the current work of state enterprises in all their branches, the carrying out, with feverish haste, of rationalization, reconstruction, and expansion of existing economic activities, the building of new enterprises, the undertaking of pioneer work in backward regions, all at a time when foreign relations were hardly favorable, could not of course be accomplished, free from all blunders, in a short time. Hence there have been a number of mistakes, "errors in accounting," resulting in phenomena that are reminiscent of economic crises in capitalistic societies. Still these fluctuations of economic balance in the Soviet system are not due to faults in the basic principles of that system but to its youthfulness and incompleteness, to the imperfection of the statistics which lie at the base of the plan, and to divergencies between the centralized plans and those of petty private, chiefly peasant, economy, which is the almost exclusive producer of bread and agricultural raw materials. Economic planning will become more workable and more nearly perfect as the leading economic organs learn not only to adapt themselves better to existing conditions, but also, at the same time, to conquer them and revise them rapidly and without disturbance.

Is the carrying out of such a plan in any broad, general application feasible, or is a planned economy an illusory

ideal? The opinion is often heard that it will not work; but the history of recent decades shows that even in countries where the principle of private property dominates, unlimited competition of private enterprises is steadily receding before the advance of gigantic financial and industrial corporations which assume the task of "regulating the market;" i.e., they actually plan production and marketing within the limits of certain branches, often carrying their operations across national frontiers and appearing in the world market. The larger the part played by such corporations (trusts, syndicates, etc.) the more pressing becomes the problem of their relations to the state. A policy of non-interference by the state in such conditions would mean paralysis of state power; and in practice the participation of the state in the more important economic questions is undoubtedly not weakening but, on the contrary, is growing, in the principal capitalistic countries. In the Soviet state with its peculiar social structure these processes, because primarily of the evolution of modern technique of production, exhibit the freest and most complete expression and have resulted in a frank proclamation of the principles of directive planning in socialized economy.

In one of the reports<sup>1</sup> of the Gosplan (State Planning Office) the general principles of planning were formulated as follows:

In our struggle for a planned economy we aim, first, at such a structure of the national economy as, owing to inner harmony among its parts, to scientifically established methods of production and distribution, and to a correct co-ordination with objective material resources and the existing labor power, will result in maximum production at a minimum cost and in a minimum working time; second, at the construction of the complete state system such as will assure the regular working of the whole mechanism without crises and interruptions, while the entire laboring community will be a conscious participant in socialized production and will clearly understand the methods by which, and the extent to which, it is possible to subjugate nature to its needs.

<sup>1</sup> See protocols of the First Congress of Presidia of the U.S.S.R. Gosplan and the Gosplans of the federated republics.

The influence of planning on the economic processes has by this time become crystallized, as follows: First, a general plan of national economy is worked out, calculated for a period from ten to fifteen years in advance; thus far, such a general plan has been worked out, and operations under it have been given practical significance only in so far as its results (the selection of districts and of industries to which funds are to be directed) have been taken into account in the construction of the present proposed five-year plan. Second, this five-year prospective plan has been finished and is to be ratified at the next All-Union Congress of Soviets in 1929. It outlines, by way of orientation, the rate at which the different economic branches are to be developed, co-ordinates the turnover in raw material values in different branches, and presents a balanced financial plan for receipts and disbursements in separate branches, taking into account, also, the possible volume of state budget revenue and expenditure and the directions in which budget resources must be applied. On the basis of the ratified five-year plan and as a means for its execution, control figures for the national economy will be calculated for each year. Third, during the last few years (beginning with 1925-1926) these control figures have assumed the greatest practical importance, although until now they have not been based on a five-year plan. These control figures are an outline in advance, for one year ahead, of the movement of all the basic indices of the economic situation, the extent of production in industry and agriculture, the movement of costs of production and prices, the movement of wages and capital accumulation, the volume of imports and exports, etc. They also include control figures for the state budget, i.e., approximately and conditionally calculated estimates of state receipts and expenditures with their tentative distribution among the principal activities. Control figures for the separate federated republics are worked out by the Gosplans of those republics and are submitted for ratification to the Economic Soviets of the Republics. Control figures for the Union, comprising as they do, the figures for the republics, are submitted by the Gosplan of the Union to the Soviet of Labor and Defense

of the U.S.S.R. for ratification. The ratification does not, however, make them unconditionally fixed and obligatory, but lends them importance only as instructions. In each separate activity they are to be given greater precision, being modified if necessary. If such changes do not go too far, the interrelation of the work as outlined for the different activities is preserved; but if the changes are such as to impair such mutual relations, this fact itself points to some essential errors in the construction of the control figures, and in that case the figures become subject in the course of the year to more or less serious reconsideration. Those errors which have thus far been found have been caused chiefly by the fact that at the moment of the fixation of the figures (end of summer—beginning of autumn) it was not possible to estimate with sufficient precision the extent of the new crop and, consequently, the quantity of grain and agricultural raw materials which would be sold by the peasants on the market. It is with these figures that the movement of bread prices, and of real wages, and the extent of exports, and consequently of imports, are most closely connected. Also because the proportion of industrial equipment in the imports is an important factor in new industrial development, changes in the estimates of crops and agricultural stocks have resulted in recent years in instability and uncertainty in connection with some of the schemes projected by the economic plan. Nevertheless, the operation of the control figures as a whole has thus far been satisfactory, for in so huge an economic program as the activities of a whole year ahead many of the fluctuations were mutually neutralized in the process of execution. The calculation of control figures is based on the following sorts of methodological procedure:

(a) The method of balanced accounts; (b) the method of static and dynamic coefficients; (c) expert estimates; (d) comparison of reconstruction elements in the country's economic development with pre-war level, and of the elements of new construction with separate prospective plans and indices of technical progress in the foremost capitalistic countries.<sup>3</sup>

<sup>3</sup> Report of Gosplan on controlling figures for 1927-1928.

The inclusion of control figures for the state budget in the general control figures for national economy is due, on the one hand, to the fact that the calculation of a number of budget receipts depends most directly on certain calculations or questions of an economic nature. If, for instance, it has been planned to increase the area under sugar beets up to a certain figure exceeding that of the preceding year by 12 per cent, this, *ceteris paribus*, would mean the increase of excise receipts from sugar by the same percentage. If, according to the economic plan, it is desired to foster timber cutting to a given extent, this will be accurately reflected in the figure for the estimated forest income. If, for industry, the outside limits of capital investment have been calculated from which the further industrial development plans will start, this very fact will forecast the corresponding amount of deductions from profits to be paid into the state budget. On the other hand, starting from the determination of the revenue sources of the budget and the expenditures for administration, for cultural and social needs and for defense, the control figures establish the possible extent of those appropriations which may be made for financing national economy. From this budget figure, which has an essential influence on the general volume of resources used for capital investment, the rate of progress of new industrial construction is in its turn determined tentatively, as well as the extent of expenditures for electrification of the country, for new railroad construction, etc. The danger of such fixing of control figures is the possibility of an excessive pressure of requirements of economic expansion on the state budget. If we start from the very high requirements of all economic activities for financing new construction, the control figures may tend to exaggerate the estimates of the budget receipts which are to be expected and to plan a budget which may not be realized or be out of balance. This is the subject, every year, of frequent and warm controversies between the Narkomfin [People's Commissariat of Finance] and the Gosplan when the control figures are being fixed.

However, as in other fields, the control figures for the budget give only the basis. On this foundation the further

budget work is developed, and budget allocations for various industrial financing and other purposes, as defined by control figures, have come to be minima rather than maxima. The experience of recent years has shown that the budgets yield a surplus over the control figures. Thus in 1926-1927 the control figures of Gosplan estimated the state budget of the Union at a total of 4,608 million rubles. Yet the Tsik of the U.S.S.R. ratified the budget in the amount of 5,045 million. (The actual execution of the budget of 1926-1927 considerably exceeded this figure.) For 1927-1928 the control figures of Gosplan projected a state budget of 5,571 million rubles, but in its further stages this figure grew to 6,449 million. According to the control figures, 520 million were to be spent in 1927-1928 for financing industry, but subsequently appropriations reached a total of 632 million. The execution (final) figures of the budget in 1927-1928 also exceeded the allocation figures.

Thus co-ordination of the budget finance plan with the economic plans is reached by the control figures without endangering the budget equilibrium. This is a very essential fact. The budget faces very large requirements which it is possible to meet completely only by the extensive use of domestic credit (large industrialization loans, the Loan for Helping the Progress of Agriculture); nevertheless, in the face of this strain on budget resources, there are no deficits and there is no necessity to increase receipts by inflation methods. Although the execution of control figures and budget allocations in financing capital investment in new economic construction has taken place without financial disturbances, it has often met with difficulties of an altogether different nature, namely, with the scarcity of certain materials for production, for the purchase of which money had been appropriated. For example, the backward development of the building material industry, which is scattered and largely in the hands of small enterprises which do not fit well into the planning scheme, has caused delays in building plans through lack of materials, in spite of a sufficiency of funds. The Union Gosplan formulates its view of the connection between the economic and the financial plans thus:

In the system of control figures, keenest attention should be given to all financial estimates. Under certain conditions a situation may easily arise in which the financial side of the general economic plan will be balanced although there is an evident lack of materials; and vice versa, with excessive caution on the financial side, too great economy may hamper the carrying out of economic plans even when the material quantities balance normally.<sup>3</sup>

To find the line of correct balance is the practical problem on which the economic and financial forces of the state work intensively at the beginning of each new fiscal year.

In the current year, 1928-1929, the computing of control figures of the budget, and of separate economic projects, has been done in the following manner: first of all, the Gosplan control figures were computed and ratified. Then, on that basis, the state budget was worked out and ratified. The figures of appropriations for economic financing and the other components of the financial plan which were fixed in the budget then were taken as permanent components of the separate plans worked out by departments and institutions.

In the financial domain, besides the state budget, a tentative summary of local budgets is made. The State Bank submits to the Soviet of Labor and Defense of the Union, for consideration, the plan of its credit operations, chiefly in connection with the necessity of limiting, in the interests of stability of the currency, the extent to which banknote circulation may be expanded. Just as the setting up in the budget of fixed figures for economic financing appropriations essentially fixes the general volume of long-term capital investments in economic and particularly in industrial construction, so the fixing by the State Bank of the limits of expansion for banknote circulation in large measure sets the pace for the possible increase of short-term credits for all economic, and especially industrial undertakings. Two figures, the one of budget appropriations for industrial construction and the other of the tentative limit of expansion of bank credits to industry, play a very important part in working out the financial plan of industry. The necessity for bal-

<sup>3</sup> *Controlnyy tsifry*, report of Gosplan for 1928-1929.



ancing the state budget and keeping the currency stable naturally has a limiting influence on industrial plans. The explanatory note to the plan of capital construction for 1928-1929 states this fact and throws light on it, from the standpoint of industry, in the following terms:

It is necessary to note the fixed limits in financing working capital and capital investments. The weak spot of industrial planning is found in that the budget, in which the basic elements of the dynamics of national economy focus and which reflects the total of these dynamic operations, appears to be unable to supply sufficient means for the planned industry out of its own resources; and because of these limitations, industry must plan its expansion at such rates as will enable it to assist in giving maximum aid to the growing requirements of the country for industrial goods without at the same time disturbing the equilibrium between the separate parts of the national economy, and thus, so far as possible, to develop economic activity without producing crises.

The financial plan of industry, next to the state budget, with which it is connected in many ways, is the most important part of the planning system. It sets the tentative limits for production, the selling prices, the adjustment of the number of workers, wages, changes in production costs, the extent of amortization payments, of profits, of credits obtained, etc. These figures are derived from report data which are adjusted for the coming year to the specific problems of the year. For instance, a lowering of 7 per cent in production costs is projected; an increase of 5 per cent in the general wage fund, an increase of 20 per cent in the sales value of the aggregate products turned out, etc. The introduction of these planning problems into the general industrial plan is preceded by their elaboration as to individual branches and to the largest industrial units within each branch. The industrial plan also includes as a separate unit the plan for capital construction. Here is the dynamic principle in industry; the plan for capital construction is the plan for reconstruction and expansion of Soviet industry, connected not only with economic and financial problems but having also a deep political and social importance, for the industrialization of the country and the technical modernization of industry will reconstruct in a revolutionary

way the present backward economies which the Soviet state inherited from the old régime. The resources for capital construction are made up from the industry's own accumulated capital (minus specified deductions), amortization payments, payments out of the state budget and local budgets, amounts obtained from the Long-Term Credit Bank, from the Communal Bank (for purposes of dwelling construction), and certain minor sources of income. According to the data of the Supreme Economic Council capital investments in industry in 1927-1928 reached the figure of 1,556 million rubles. Capital investments in 1928-1929, as projected, will exceed 2 billion rubles. This, of course, does not mean that industrial funds will increase by this whole amount, for the figure includes amortization deductions, and the capital obtained from the Long-Term Credit Bank is also made up in part of a redistribution of the amortization amounts which come into the Bank. The analysis of the interdependence of the state budget and the plan of capital construction in industry shows that part of the budget appropriations for industrial construction are made from the deductions from industrial profits which have been previously taken from industry for the benefit of the state budget. This operation, however, is not purely mechanical. The appropriations do not return the funds to the points from which they are taken, i.e., the state budget makes a planned redistribution of capital between industrial undertakings and branches, or, more broadly, between the different branches of economy.

The financing of agriculture is not concentrated in one channel. This is due partly to the very nature of agricultural production and partly to the fact that there is no Union Commissariat of Agriculture but only People's Commissars of Agriculture in the individual republics. Financial resources are directed into agriculture through the budgets, through the State Bank, and through the agricultural credit system with the Central Agricultural Bank at its head. The credit plan of this last bank, which is submitted to the Soviet of Labor and Defense of the Union, comprises the major portion of the financial measures which are aimed at a planning influence upon and a regulation of agriculture.

The plan for capital investments in transportation is considered at the time the state budget is worked out. Plans for the financing of electrical construction, dwelling construction, and communal building are all in large measure connected with budgets (state and local) and are practically set up at the time these budgets are made up.

No consolidated yearly plan of capital investments in all branches of activity has, as yet, ever been made, nor has it come under consideration in legislative bodies. There are, however, many arguments in favor of such a united plan. According to calculations of the State Planning Office, the aggregate capital investments in national economy, including state as well as private undertakings, was 6,323 million rubles for 1926-1927, and 7,586 million for 1927-1928.

Among the plans for storage (of which we may mention those for cotton, flax, leather, timber), that for grain is of greatest importance. The execution of this plan is truly decisive for the whole economic situation in the U.S.S.R. Inasmuch as it regulates the relation between the state and peasant activity in so important a branch as grain cultivation, it is not only of economic but also of serious political significance. The amount of grain storage determines the food supply of the cities and the manufacturing centers and of those districts which produce technical materials, and sets the limits of raw material storage in those districts. Lack of food or fodder also injures the timber-cutting industry, in which a great number of peasants with their horses take part. An unsatisfactory supply of stored grain, while affecting the whole commercial activity of the country injuriously, also creates a necessity for greater protection (curtailment) of money circulation, and this is reflected in a contraction of bank credit, which contraction in turn tends to cause greater pressure on state budget resources by state enterprises. At the same time, inasmuch as difficulties in grain storage lead to a rise of grain prices and a corresponding upward tendency in prices of certain other raw materials, the financial situation of industry becomes more strained and its working capital more curtailed in this direction as well. Then, too, the upward trend of bread prices

leads to tying up a larger share of bank funds in this direction, and this compels the banks to alter the distribution of credit resources to the detriment of industry. Thus non-execution of the plan of grain storage leads to fluctuations in the financial plans of the Treasury, the banks, and industry. And vice versa, success in the carrying out of the plan results in financial and economic strengthening.

In those cases in which the grain-storage plan is made with a view to the exportation of a definite quantity of grain, its execution has a vital influence on the carrying out of the export-import plan. The industrial plan, grain storage plan, and the export-import plan are at present the "three whales"<sup>4</sup> among economic plans. The connection of the export-import plan with state finance and the resources of the State Bank, apart from the influences and fluctuations resulting from the general economic situation, is made also, more directly, through the currency plan developed by the Finance Commissariat and presented to the Soviet of Labor and Defense for confirmation. The export-import plan fixes definitely, for a year ahead, the quantities of goods to be imported and exported, and sets their currency prices, while the currency plan includes, as one of its elements and practically its most important element, the balance, on one side or the other, estimated in the export-import plan. As a rule, the export-import plan must carry a favorable balance for the Soviet government for the purpose of increasing the currency reserves of the country, and adopts the view that a favorable trade balance or, to be more exact, a favorable payment balance, as part of the imports are bought on credit, is a necessity. But even if, for instance in years of deficient crops and absence of grain exports, a favorable balance cannot be achieved, this does not mean that there is an unfavorable balance on the currency plan. The currency plans have, among their other credit items, receipts on account of gold and platinum mined in the country, money orders from abroad, foreign currency payments by concession holders, and bank credits. Currency expenditures con-

<sup>4</sup>In Russian mythology the earth is supported in space by three whales. (TRANSLATOR.)

sist in paying the expenses of Soviet establishments abroad, paying for money orders going out of the country, and covering an unfavorable balance of trade when such exists. The currency plan is an extremely valuable and useful tool for regulating the condition of the country's currency reserves and helps the state to give reliable protection to its circulation. In order to reinforce the currency resources, the state budget includes sizable expenditures for gold mining, while at the same time those appropriations have been increased which promote export trade through the development of those economic activities which are of significance in such trade.

Such are the basic "plans" which enter into the "control figures of national economy" and stand in one relation or another to the state budget. Yet we cannot consider this scheme of interrelations as entirely completed and altogether clear-cut. First of all, it must be noted, that the part played by control figures, i.e., the extent of their influence on the country's economy, is not yet definitely established. The survey which served as a preface to the control figures of the Gosplan for 1927-1928 spoke of them thus:

The computing of control figures for the national economy for the year 1927-1928 took place under conditions essentially different from those in preceding years. The growth of the socialized domain of economy and especially of state industry in the entire system of national economy, on the one hand, and the accumulation during the preceding period of greater experience in the matter of planning, on the other, have made it possible to use the control figures so as to serve in connection with other more complicated and more pressing problems. This change in the very nature of the control figures, the new problems in connection with which they are used, and the strengthening of their part in the whole planning system were expressed with sufficient clarity and completeness in the ruling of the Sovnarkom of the Union of May 19, 1927, which speaks of them as "making another step forward, in that control figures should become, instead of a general national economic orientation, a united national economic plan."

In other words, the control figures must cease to be merely a basis on which the economic plans are worked out, but must themselves become a synthesis of final fixed plans

combined into an entirely finished system. However, this aim in 1928-1929 did not receive either confirmation or further development. In that year the dominating rôle of the budget in relation to separate economic plans was more vigorously emphasized. Whether it is possible actually to have a fixed and complete "united plan of national economy" for a single year, or whether such a plan must, of necessity, cover several years (five years, three years), while the plan remains merely as "a general national economic orientation," this is a problem which must as yet be considered as unsolved.

If then we cannot consider as essential or possible in the future such a "dissolving" of the state budget in control figures, which would be a consequence of the formulas just stated, then it becomes impossible with any success to defend the idea that the problem of establishing a regular relationship between the financial and the economic plan is already wholly solved. The present-day structure of the Soviet state budget will yet see many changes. For instance, we may ask whether the difference of attitude toward industry and transportation which we now see in it is sufficiently sound. Transportation enters into the budget with its gross receipts and expenditures. But being in this case a gross budget, it is, on the contrary, built on a very liberal interpretation of the principle of balance-budgeting so far as industry is concerned. The question which is now attracting the attention of a number of practical workers in financial matters is whether state industry should not be somewhat more closely connected with the budget and whether at the same time it would not be better to cease showing the gross figures of the transportation accounts in the budget. In case of an affirmative answer, detailed financial plans of industry and transportation could be added to the state budget as supplementary budgets, entering the budget totals only as balances. The relation between the state budget and the financial plans of state trade could be handled on the same basis. In other words, the state budget could in the future become, with full justification, the agency uniting and totaling the financial plans of the various branches of state econ-

omy. But even with such a structure, the budget would remain merely a combined financial plan within the limits of state-managed economy, while outside of these limits there would remain, for a long time to come, a very large domain of private, and chiefly petty, economy. National-economic orientation and the control figures of national economy should, in broad perspective, encompass all the country's economy, utilizing the whole revenue, accounting for all the funds, state as well as private; it should establish tentative interrelationships for a whole economic year, etc. The scope of control figures is more extensive than that of the state budget, but their fixity is less; they expand beyond the limits of directly state-managed economy. On the other hand, control figures determine the direction of a number of the planning operations which can in no way find a place in the state budget, such as, for instance, price policy, wage policy, etc. The budget thus cannot be substituted for the national-economic plan and national-economic orientation. Yet it is a powerful lever in the planning economy, and assures a firm financial basis for the activity of the whole system of state establishments.

## CHAPTER SEVEN

### BUDGET FINANCING OF POPULAR ECONOMY<sup>1</sup>

*By A. S. Gordon*

#### I. PROPORTION OF BUDGET RESOURCES USED FOR FINANCING ECONOMY

The economic system of the U.S.S.R. makes the budget a most important factor in financing its system of national economy and industrialization. Along with those expenditures which are common to the budgets of all countries, there is also a group of expenditures, those for financing national economy, which give to the budget a peculiar and unique character.

<sup>1</sup> This chapter records in detail how the Soviets financed agriculture and industry from the establishment of the State Bank and the reform of the currency, begun in 1924, down to the close of the fiscal year 1927-1928. (The Russian fiscal year begins October 1.) During the last two of those years especially, and to some extent during 1925-1926 as well, the Soviets devoted a great deal of effort to planning the financing of, that is, providing funds for, those productive activities decreed of importance in their socialistic scheme. These were years of careful experimentation to ascertain how best they could provide capital and current funds for each industry. On the basis of what was learned they launched in October 1928 the much-heralded "five-year plan." They learned how to use the earnings of going concerns as a basis for credit; how, if necessary, capital investment could be paid for from taxes, or by loans guaranteed by the government to be reimbursed out of the earnings of future years. The "five-year plan" follows after three successive "one-year plans," and is built on the results.

It is a bit unfortunate that the author of this chapter has been so anxious to be meticulously exact that his style became involved and heavy and the chapter deadly dry. But it is also deadly in earnest, and on that account alone will repay the effort necessary to read it. We have ventured here and there to abbreviate or to make attempts to clarify the descriptions. However, we have left in all the "including" and "excluding" and "please bear in mind," etc., with which the author prefaces details inserted to protect himself against any possible chances of carelessness, oversight, misrepresentation, or undue generalization, tedious as they all are. The reader who has the patience to peruse this chapter carefully will have the



In the mixed classification by departments and by the objects of expenditure of the consolidated state budget (i.e., the Union budget and those of the various republics), the particular expenditures we are now to consider are classed under the heading, "expenditures for national economy." In local budgets, on the other hand, they are classed with "economic-productive expenditures." Yet neither in the consolidated state budget nor in the local budgets do the expenditures for financing national economy, as they are formally stated in the budget, express the full extent of the influence exercised by the budget on national economy. We shall have to return to this point later. First, we may examine the actual figures of the budget in the form in which they are stated. In order to safeguard ourselves from any exaggerations in this respect, we shall include only such expenditures as should without any doubt be classed under "financing national economy."

It will be evident, in the first place, that from the general expenditures in the state budget there must be excluded all "deductions";<sup>2</sup> that is, the amounts transferred to local budgets. The ultimate use of these sums can be learned in the local budgets only.

In the group of expenditures for the financing of national economy there should be included all new investments in the transportation system and in the service of communications. With the beginning of the next fiscal year these will be segregated in the subject classification of the budget expenditures. As the budget is now drawn it is necessary in

answer to the question continually asked: "Just how do the Soviets expect to get the money to carry out the five-year plan?"

Two terms, technical in Soviet language, need definition since we have used their closest English equivalents. "Popular economy" and "national economy" are used to cover a deliberately planned system of productive enterprises supplying the people with those necessities, conveniences, and luxuries of life which are deemed good and proper. Their national economy must be, according to the Soviets, planned and controlled by government, and consequently, as their thought runs, financed according to plan and with government sanction. (EDITORS.)

<sup>2</sup> When the Soviet Union levies and collects a tax, part of which is by law designed for the support of local government the amount so designated is called a "deduction." (EDITORS.)

order to ascertain these items to deduct the operating expenses of railroad and communication services from the total appropriated for these purposes in the budget. Finally, the statement of expenditures for the financing of popular economy should include the payments for amortization of the Loan for Economic Reconstruction, such payments representing capital accumulated from earnings.

With these changes, the proportion of expenditures for financing national economy in the aggregate expenditures of the state budget are found to be as follows:

PROPORTION OF EXPENDITURES FOR FINANCING NATIONAL ECONOMY\*

	1924-25	1925-26	1926-27	1927-28	Total for Four Years
Total expenditures in million rubles.....	1,818.0	2,251.3	3,110.4	4,044.9	11,224.6
Financing of national economy in million rubles .....	610.3	762.2	1,309.9	1,898.3	4,580.7
Percentage for national economy .....	33.5	33.8	42.1	46.9	40.8

\* The total expenditures above are exclusive of the amounts transferred to local budgets and the operating costs of transportation and communication.

The financing of national economy through the budget is indicative of the investment of capital in industry through the state budget, which, as the table shows, is taking place very rapidly. In 1927-1928 it exceeded that of 1924-1925 threefold.

Unfortunately we lack sufficiently precise data to permit any statement as to the part which the budget's contribution to capital plays in the general process of capital accumulation in the country. Some idea of this may, however, be obtained by comparing all budget expenditures for providing national economy with capital funds in all those parts of the national economy activity which are controlled by the state, with the total national income.

But to do this it will be necessary to add to the expenditures for financing national economy as given in the con-

solidated budget those which appear in local budgets. The "economic-productive expenditures" of local budgets, which with the exception of operating expenses of communal undertakings and special allotments and reserves may, with tolerable accuracy, be classed with the expenditures for financing national economy, were for four years as follows:

LOCAL BUDGET EXPENDITURES ON NATIONAL ECONOMY

(Million rubles)

1924-1925	1925-1926	1926-1927	1927-1928	Total for Four Years
202.6	277.7	465.8	579.5	1,525.6

Thus the financing of national economy, during the last four years, on the consolidated state budget and the local budgets together, totals 6,106.3 million rubles (state 4,580.7 million, local 1,525.6 million).

The net income of state-owned undertakings, by which is meant their income less the amounts paid into the state budget, has during the last four years amounted to 6,049 million rubles. This sum represents the capital investment of state-owned economic activities not carried on either the state or the local budgets. Comparing this with the amount spent for budget financing of national economy, or 6,106.3 million rubles, we see that about 50 per cent of the whole capital investment appears in the state and the local budgets.<sup>3</sup>

The comparison of the expenditures for financing national economy with the total national income is shown in the table on page 352.

In view of such large capital investment through the budget, the methods by which it is achieved become of great interest. Is the financing of national economy done through non-tax income only, or do tax receipts play a part in it?

If, now, we make corrections on the income side of the budget corresponding to those which we made on the ex-

<sup>3</sup> As a matter of fact the budget capital investment is considerably more, as the national economy is financed from estimates of both the People's Commissariats of the Union and the republics and departments of local executive committees.

COMPARISON OF EXPENDITURES ON NATIONAL ECONOMY  
WITH NATIONAL INCOME

(Million chervonets rubles)

	1924-1925	1925-1926	1926-1927	1927-1928	Total for Four Years
Total national income (of the people) . . . . .	16,949	22,515	23,645	25,872	88,981
Financing of national economy in state and local budgets..	812.9	1,039.9	1,775.7	2,477.8	6,106.3
Percentage for financing national economy	4.8	4.6	7.5	9.6	6.9

penditure side, i.e., exclude the operating costs of transportation and mails and telegraphs and the "deductions" (i.e., taxes collected) for local budgets, we get the following figures comparable with those above:

BUDGET RECEIPTS AND FUNDS FOR NATIONAL ECONOMY  
COMPARED

(Million rubles)

	1924-25	1925-26	1926-27	1927-28	Total for Four Years
Tax receipts, net. . . . .	1,153.8	1,550.4	2,067.4	2,461.5	7,233.1
Non-tax income, net..	533.7	614.3	748.6	931.1	2,827.7
Loans . . . . .	130.5	146.0	308.1	525.0	1,109.6
Totals of receipts.	1,818.0	2,310.7	3,124.1	3,917.6	11,170.4
Financing of national economy . . . . .	610.3	762.2	1,309.9	1,898.3	4,580.7*

\* See table of expenditures, p. 350, above. Since, by the aid of loans, the budgets are brought to an approximate balance (total receipts 11,170.4 million, total expenditures 11,224.6 million), the percentages of receipts devoted to national economy were the same as shown for those of expenditures on p. 350. (Errors.)

This table shows how closely the Soviet budget and the Soviet financial system depend on the development of the country's productivity. No matter how we may, in theory, decide the question as to what is the desirable direction in which Soviet finances should develop—whether we should like them to be supplied from non-tax income or vice versa

—the actual fact is that both tax revenues and receipts derived from other sources have, through the budget, been used for the same purpose. In the course of the last four years receipts from sources other than taxation have covered only about 63 per cent of the expenditures for national economy, the balance coming from loans and from tax receipts. If we assume that national-economic expenditures are covered first from the earnings of productive enterprises, next from the balance of tax receipts left after all current (political) expenditures have been covered, and lastly, in case the first two sources are insufficient, from loans (after the current expenditures have been covered from this source, if necessary), we may tabulate the participation of the various sources in covering expenditures for financing national economy as follows:

SHARES OF EACH CLASS OF RECEIPTS IN FINANCING  
NATIONAL ECONOMY

Class	(Percentage of total)				Total for Four Years
	1924-25	1925-26	1926-27	1927-28	
Revenues other than taxes..	87.4	64.4	55.0	53.0	63.0
Taxes .....	....	20.3	22.4	17.1	19.9
Loans .....	12.6	15.3	22.6	29.9	17.1
Total .....	100.0	100.0	100.0	100.0	100.0

Not all the items are as yet stabilized in this comparison; in particular, it is uncertain what part state loans will in the future play in the financing of national economy. But one tendency is plain: the budget directs considerable capital into national economy, taking the money not only from the earnings of state properties and undertakings but also directly from the national income by means of loans or through taxation.

There are two other sources of capital investment in the industries which are not carried on the budget. One is the so-called net income of the state economic domain, and the other is credit. The part that credit plays appears in the following data on the indebtedness of state undertakings to

six banks: Advances by the banks to state undertakings on October 1, 1924 were 577.4 million rubles; on October 1, 1925, 1,314.5 million rubles; on October 1, 1926, 1,846.3 million rubles; and on October 1, 1927, 2,262.3 million rubles. Thus in three years, i.e., from October 1, 1924, to October 1, 1927, credit added 1,684.9 million rubles to the national economy. In the same three years the budget contributed 2,682.4 million.

Such are the quantitative contributions. But there is a qualitative difference which runs through these bare figures. The banking system finances chiefly the circulating or working capital of the enterprises, while the budget finances both the fixed and the circulating capital.

The relations of the credit and of the budget financing in the three years is itself significant. Before 1924–1925, and even in 1924–25, credit played the most important part. It was then based on paper issues. But from 1925–1926 on a definite change took place; credit lost its foremost place and the budget became more important every year.

The causes of this change are to be found not only in the improvement of banking methods and the reform of the currency, but also in the fact that a new phase of economic development has been inaugurated.

The transition from the first years after the World War and the civil wars—the period of the intervention and the blockade, when the remaining stocks of materials had to be used up in one way or another—to the period of more extensive reconstruction occurred at different times in the different economic branches. But if we consider the economic condition of the country as a whole, it may be said that the year 1925–1926 represents the line of demarcation between the period in which factors of “reconstruction” predominated and the period in which new construction began to predominate as the inevitable result of the process of industrialization.

During the first of these periods, before 1925–1926, it was the budget and the credit system which performed the functions of accumulating and distributing the means for the financing of popular economy. Intra-industrial investments

and earnings available for amortization of debt were still negligible. During this period it would have been difficult to draw the line with any precision between budget financing and bank credit, despite the existence of formal differences. Both served as a source for the reconstruction funds necessitated by the exhaustion of whatever stocks of materials had been on hand, although, of course, some new construction was already interwoven with reconstruction work. It was not, however, until the period of new construction proper began, that a new source of capital investment made its appearance, namely, the development of surplus earnings within industry which made possible a more precise delimitation of budget financing from bank credit.

## II. THE GROWTH OF PRODUCTIVE ENTERPRISES AIDED BY STATE

The year 1924-1925 was the last in which the credit system played the chief part in financing national economy. In the following year it carried a part of the burden of the industrialization of the country, through its Loan for Economic Reconstruction. But a year later this function was transferred to the budget, which then took over the chief burden of intensifying and reconstructing economic activities. In order to understand properly the share of the budget in the new construction processes of the country we must dwell somewhat more in detail on those shifts in production which have occurred during the last four years.

Throughout the entire economic field, beginning with the year 1924-1925, industrial production grew fairly rapidly, while that of agriculture showed only a slight increase, as the following table clearly shows:

### GROWTH OF PRODUCTION, IN AGRICULTURE AND IN INDUSTRY

Type of Production	1925-1926 in Percentage of 1924-1925	1926-1927 in Percentage of 1925-1926	1927-1928 in Percentage of 1926-1927
Growth of agricultural production .....	119.2	104.1	103.2
Growth of industrial production .....	139.3	113.7	113.4

The quotas of agricultural and industrial production change as follows:

PROPORTIONS OF AGRICULTURAL AND INDUSTRIAL PRODUCTION\*

Type of Production	1924-1925	1925-1926	1926-1927	1927-1928
Agricultural production . . . . .	67.6	64.1	62.0	59.8
Industrial production . . . . .	32.4	35.9	38.0	40.2
Total . . . . .	100.0	100.0	100.0	100.0

\* In percentages of the aggregate production of the country.

The volume of all production, which, including building, has grown in the last three years to 23.6 billion pre-war rubles, as against 16.2 billion in 1924-1925, i.e., has increased by almost 46 per cent, shows a considerable preponderance of industrial production, and the tendency toward industrialization appears still more clearly when we analyze the composition of production in the two chief divisions of economic activity mentioned above.

The gross production of agriculture and forest economy as a whole, in 1927-1928, exceeded that of 1924-1925 by 28 per cent, and its commercial (salable) portion, at pre-war prices, by 32 per cent. Field products sold outside the local peasants' markets have increased by 85 per cent, and the products of animal husbandry by 50 per cent.

In industrial production there is rapid progress in the manufacture of industrial equipment. Thus, while the increase in the gross output of heavy<sup>4</sup> state industry in 1927-1928 was 95 per cent, the output of those branches of industry producing chiefly equipment grew by 109 per cent. In the same year those branches of industry producing articles of consumption increased only 85 per cent.

Among the branches of heavy industry the greatest progress has been shown during the years under consideration by the iron-metallurgical industry (+ 201 per cent); cement (+ 185 per cent); electrotechnical (+ 138 per cent); coal

<sup>4</sup> Mining, utilities, and larger-machine-using industries in general. (EDITORS.)



mining (+ 123 per cent); other metallurgical (+ 122 per cent). The data on electrification are extremely interesting as illustrating the growing industrialization. The yearly output of electrical current for public use by the large power stations, which was only 431 million kilowatt hours in 1913, grew in 1927 to 1,900 million, or nearly fivefold. The established capacity of the power stations, which in 1924 was 305,000 kilowatts, became 952,000 kilowatts in 1928. The capital funds for large electrotechnical construction which were estimated in 1924 at 234.8 million rubles were 448 million in 1927–1928.

Changes similar to these in the volume of production have occurred also in transportation and in foreign trade; new requirements for large capital investment appear, both for fixed and for circulating capital.

The railway mileage has grown comparatively little during these four years, only 4 per cent.<sup>5</sup> The total increase in river waterways was about 8 per cent. But if we measure the work of the transportation system by the quantities of freight carried, the increase from 1924–1925 to 1927–1928 is 81 per cent. The nature of the freight carried also changes in accord with the described changes in production. Coal, which in 1924–1925 formed about 17 per cent of the total railroad freight, increased, in 1927–1928, to 22 per cent. The transportation of ore increased 2.4 times; that of pig iron, twofold. In the imports of the country, equipment made up in 1924–1925 only 6.6 per cent of the total; but in 1926–1927 it reached 13.5 per cent, twice its former proportion. Imports of raw materials grew, in 1926–1927, as compared to 1924–1925, by 30 per cent; but the imports of semi-manufactured goods were cut down by 11 per cent, the decrease being both relative and absolute.

From 1924–1925 to 1927–1928 the construction of buildings increased by nearly 80 per cent, industry increased threefold, electrification nearly as much, and transportation twofold. Hence there were large capital investments in the course of these four years. Classifying the aggregate capital

<sup>5</sup> But see chapter three, p. 256, above.

of national economy as (1) productive, (2) distributive, and (3) consumptive,<sup>6</sup> the movement of their relative proportions in the grand total of the material funds of the U.S.S.R. appears as follows:

### PRODUCTIVE, DISTRIBUTIVE, AND CONSUMPTIVE FUNDS

(Percentage of total)

Funds	1924-1925	1925-1926	1926-1927	1927-1928
Productive funds .....	36.6	37.1	38.2	39.0
For distribution .....	21.4	21.2	20.7	20.7
For consumption .....	42.0	41.7	41.1	40.3
Total .....	100.0	100.0	100.0	100.0

Capital investment in separate branches of popular economy during these four years, shows the following movement:

### GROWTH OF CAPITAL INVESTMENTS BY ECONOMIC ACTIVITIES

(Percentage of 1924-1925)

Activities	1925-1926	1926-1927	1927-1928
1. Agriculture .....	97.8	103.5	114.9
2. Industry, electric stations, and buildings	185.3	241.9	276.5
3. Transportation .....	130.2	175.1	237.3
4. Communications service .....	137.0	166.7	200.0
5. Communal economy .....	154.4	173.7	212.1
6. Dwelling fund of cities .....	156.6	224.3	270.0
7. Administrative and social-cultural institutions .....	153.6	205.0	280.0

Thus the industrial character of the development in U.S.S.R. is very pronounced, and the budget would be unable to cope with this very complicated problem if industrialization and economic reconstruction themselves did not create

<sup>6</sup> These terms appear to be a classification of the activities shown in the table on growth of capital investments, below. Class one may include activities 1 and 2; class two, numbers 3 and 4; and class three, the remaining ones. (Errors.)

new living forces feeding the budget: i.e., by the growing productivity of labor and, with it, increasing popular welfare. The gross output per worker increased in 1927-1928, compared with 1924-1925, by 41.7 per cent, while the cost of labor as a factor in the cost of production decreased by 7 per cent. The gross output per capita of population engaged in agriculture increased by 28 per cent between 1924-1925 and 1927-1928. The output per worker in railway transportation increased by 45 per cent, in water transportation by 30 per cent. Hence nominal as well as real wages have been increased and greater welfare pervades the working masses as well as the peasantry. In 1924-1925 the real wages of industrial workers amounted to only 82.6 per cent of the wages of 1913; in 1926-1927 they were already above the level of 1913 by 5.3 per cent, and in 1927-1928 by 16.9 per cent. This makes possible that progress in national income mentioned above, in which the income of individual households of the state and of the co-operative economic enterprises all show an increase. The growth of incomes in the U.S.S.R. for these years has been as follows:

## GROWTH OF PERSONAL INCOMES IN RUSSIA 1924-1928

(Percentages of 1924-1925)

Class of Workers	1925-1926	1926-1927	1927-1928
<b>Individual households:</b>			
Agricultural population .....	121.8	130.0	138.3
Non-agricultural population .....	140.0	160.3	170.0
Including the proletariat.....	149.1	173.8	186.9
Average .....	128.5	141.6	150.7
Workers in state and communal activities	146.5	183.3	208.3
General average .....	129.9	144.9	155.1

It is only when we consider this common background of growing national prosperity, its industrialization, and the increase of national income that we can understand the part played by the state budget as one of the greatest agencies for the accumulation of capital and for the division of the na-

tional income. The first of these functions is dependent on the very fact of the growing economic activity of the country. The second—the function of dividing the income—is delimited by the specific characteristics of the Soviet economic system as one built on socialistic principles, as a planned economy.

In this connection we are not immediately interested in the broad question of the budget's influence on the division and distribution of the national income, nor even in the direct and immediate redistribution effected by the budget within the limits of what it receives, in one or another way, out of the income of individual households and the organizations of communal economy. Our problem is rather to investigate the distribution, through the state budget, of that amount taken over by the budget out of the national income, which, in accordance with the state planning method, is destined for financing popular economy. What are the proportions in which these means are distributed between the separate branches of popular economy, what is the connection between the shares granted to each branch, what are the other sources of financing, and what is the importance of each branch as a part of the whole economic system? These are the questions we shall consider next.

### III. RECONSTRUCTION AND NEW CONSTRUCTION BY ACTIVITIES

In 1924–1925, and partially in 1925–1926, the requirements for new construction in the country were not yet quite clearly defined, while reconstruction needs were felt all along the economic front. At that time the system of agricultural credit was only in its infancy. It was as yet unable to be of much assistance to agriculture, and itself required considerable assistance from the budget. The State Bank, too, needed reinforcement. Relief from the consequences of the famine consumed vast sums. All this marks the year 1924–1925 as a year apart in the history of budget financing of national economy, as may be seen from the changes in the relative amounts of financial aid furnished from the state budget to the different branches of economic activity:

## STATE AID TO DIFFERENT LINES OF ECONOMIC ACTIVITY

*(Percentage of total)*

Activity	1924-1925	1925-1926	1926-1927	1927-1928
Agriculture .....	24.8	21.0	10.6	10.1
Industry .....	24.7	26.4	36.6	36.3
Electrical construction .....	8.5	8.7	8.2	7.5
Trade .....	1.1	3.2	4.9	6.6
Co-operative business .....	2.8	3.8	2.3	0.8
Transportation .....	20.8	22.9	30.4	31.1
Communications service .....	2.4	2.9	2.1	2.0
Communal economy .....	5.8	9.9	3.2	5.0
Other branches .....	9.1	1.2	1.7	0.6
Total .....	100.0	100.0	100.0	100.0

This table illustrates the trend toward industry in the budget financing of popular economy. Industry, the construction of electric power stations, and transportation, which together in 1924-1925 took according to the table above only 54.0 per cent of all the amounts allocated from the budget for economic purposes, received 58.0 per cent in 1925-1926; 75.2 per cent in 1926-1927; and 74.9 per cent in 1927-1928 from preliminary appropriations and, most probably, somewhat more as the budgets were executed. The comparatively large amounts which came under the caption "other branches" in the accounts of 1924-1925 represented budget appropriations for the liquidation of the consequences of elemental calamities, for paying for the shares of the Industrial Bank and for the expansion of the State Bank funds. These decreased in the following years, when the financing of popular economy assumed more definite purposeful forms.

Besides progress in the financing of separate economic branches, changes occur also within each branch as to the ultimate destination of budget appropriations. The significance of the financing of individual branches, however, cannot always be correctly understood if we study only the appropriations from the consolidated state budget without

considering those from local budgets or the various department estimates as well. Therefore, in investigating this subject we shall include in our survey as much as possible of the local budget data and of those allocations made through the estimates of the various Commissariats.

The fluctuations of appropriations of this sort from the consolidated state budget for agricultural purposes have been:

#### STATE BUDGET AGRICULTURAL APPROPRIATIONS\*

	Percentage of Preceding Year
1925-1926 .....	107.8
1926-1927 .....	82.0
1927-1928 .....	136.1

\* This little table (and many others in this chapter) suffers from that overdoing of statistical refinement commented on in our footnote 5 to p. 6 in the first chapter. All that is essential here is that for every 100 rubles appropriated to agriculture in 1924-1925 there were 107.80 rubles in 1925-1926, 82.40 in 1926-1927, and 111.60 in 1927-1928 devoted to the same purposes. See the more complete data on pp. 363 and 365 below. (Errors.)

The table shows that appropriations for agricultural purposes in 1926-1927 declined by 18 per cent, but that in 1927-1928 they considerably exceeded the allocations of 1925-1926. We must not forget, however, that the segregation between those branches of agriculture financed from the consolidated state budget and those which receive support from the local budgets has not yet been made. Therefore the fluctuations of the agricultural allocations shown above are the result not only of the policy with regard to budget financing, but also of changes in the apportionment of agricultural financing between the state and the local budgets. If we add to the appropriations of the consolidated budget those appropriations made in local budgets for agricultural purposes which go under the caption of "economic-productive expenditures," the picture becomes somewhat different, although it still shows a decrease in the appropriations for 1926-1927 as compared with 1925-1926, as follows:

STATE AND LOCAL BUDGET APPROPRIATIONS  
FOR AGRICULTURE\*

	Percentage of Preceding Year
1925-1926 .....	114.7
1926-1927 .....	97.3
1927-1928 .....	116.7

\* See note to preceding table. Also table on p. 365, below.

Here we meet with certain peculiarities in the financing of agriculture in the last two years, revealed by an analysis of the purposes of the appropriations. Those which, in the consolidated state budget, go under the caption "national economy," fall into two basic groups: one directed to the reinforcement of the agricultural credit system which finances agriculture in general; the other used directly to finance certain individual operations, that is, having a purposive destination, although technically part also of the agricultural credit system. In 1925-1926 the amounts contributed to the agricultural credit system by the budget, not only did not decrease, but increased considerably. This increase, however, occurred not so much in the appropriations for the capital proper of the Central Agricultural Bank as in the reinforcement of the republics' banks. There was also, in 1925-1926, the creation of a special fund for granting credit to village paupers, amounting to 9.8 million rubles. The second group of expenditures also shows a growth in 1925-1926, and this arises from new purposes in the appropriations. Thus, in 1925-1926, large sums were for the first time appropriated for agricultural restoration in the central black soil region; a fund was created for combating the results of drought; also appropriations for irrigation in Central Asia and Transcaucasia were increased. On the other hand, the successful alleviation of the consequences of the famine in 1924-1925 permitted the curtailment of appropriations for that particular purpose, from 67.7 million rubles, the figure for that year, to 9.6 million. The amounts which entered the agricultural credit system in 1925-1926 and the preceding years, both from the state

budget and from all other sources, enabled this system, by the beginning of 1926–1927, to operate with an aggregate fund of 565.3 million rubles, and by the close of that year, with 698.7 million. Therefore, beginning with 1926–1927, the flow of subsidies for this purpose decreased considerably. This was the chief reason for the slight reduction in budget financing of agriculture in 1926–1929 as compared with 1925–1926, in spite of continued growth of appropriations for other purposes. In the following year, 1927–1928, a number of new appropriations make their appearance and these, together with increased sums for the basic needs of agriculture, account for a further increase in budget financing of agriculture. Thus in 1927–1928 the issue and distribution, by institutions of agricultural credit, of peasant shares was discontinued, and all previously distributed peasant shares became subject to redemption. For this purpose a credit is provided in the budgets of the federated republics, to an aggregate amount of 3.7 million rubles. In 1927–1928 appropriations are made for the first time, in the amount of 5.9 million, to form a fund for the purchase of selected and assorted seed grain, 2.4 million to cover any deficits resulting from supplying the people with improved and selected seed grain, and 3.5 million for measures to develop the use by peasants of mineral fertilizers. Besides these new allocations in 1927–1928 we notice a further growth—by about 12 per cent—in appropriations for combating the consequences of drought, a doubling of funds assigned for financing collective (community) farms, and an increase by 48 per cent of assignments to the credit fund for paupers.

The financing of agriculture from the consolidated state budget in 1927–1928, together with appropriations for irrigation in Central Asia and Transcaucasia, amounted to 181.1 million rubles, while in 1926–1927 it was only 133.1 million. Yet these figures do not give even an approximate idea of the funds which have been spent for agriculture from budget as well as from various other sources, for considerable amounts are appropriated on the estimates of the Commissariats of agriculture of the various republics, and



not a little on the estimates of such state and economic agencies as the Sugar Trust, the Head Committee on Cotton, and others. If we group together all the funds contributed from all the various sources, the financing of agriculture has been as follows:

## FUNDS FOR AGRICULTURE FROM ALL SOURCES

<i>(Million rubles)</i>			
Source	1925-1926	1926-1927	1927-1928
Budget contributions (including the estimates of the Commissariat of Agriculture, of the republics, and the local budgets) .....	294.7	315.0	365.4
Agricultural credit system and State Bank	147.7	203.3	370.0
State and economic organizations.....	88.7	89.0	119.4
Total .....	531.1	607.3	854.8

Thus the financing of agriculture reaches an imposing figure which shows a vigorous growth from year to year, the 1927-1928 allotments exceeding those of 1925-1926 by 61 per cent. Not only does the general total of appropriations increase, but the special budget appropriations as well, if we also include under the designation of "budget financing of agriculture" the amounts in the estimates of the Commissariat of Agriculture. However, the relative proportion of budget contributions to the total for agriculture shows a steady decrease, while the share of the agricultural credit system grows. This is borne out by the following percentage ratios between finances from various sources and the total financing in each year:

## PERCENTAGE OF AGRICULTURAL FUNDS FROM EACH SOURCE

Source	1925-1926	1926-1927	1927-1928
Budget sources .....	55.5	51.9	42.7
System of agricultural credit.....	27.8	33.4	43.3
Other sources .....	16.7	14.7	14.0
Total .....	100.0	100.0	100.0

The help of the banks in the financing of agriculture was possible solely because of the large investments which the

budget had previously made in the system of long-term agricultural credit.

The part taken by the state budget in the agricultural credit system is seen again from the liabilities account of that system. Of the total liabilities of 698.7 million rubles on October 1, 1927, budget advances amounted to 328.0 millions, or 47.0 per cent, including investments in capital funds of 159.4 million, and in special funds 168.6 million. If, however, we add to this the guaranteed loan from the State Bank of 98.0 million, the total investments of the state budget in the agricultural credit system will be more than 61 per cent of its assets. Such a large share of budget advances to the agricultural credit system is of course justified by the long-term nature of that credit.

A somewhat different trend may be observed in the financing of industrial and electrical enterprises. Budget financing of industry, like that of agriculture, is not limited to those expenditures entered under the captions "popular economy" in the consolidated state budget, and "economic-productive expenditures" in the local budgets. A number of items in the estimates of the Supreme Economic Soviet of the U.S.S.R., and of similar soviets of the separate republics, should, unquestionably, be classed as the expenditures for financing industry. Such are, for instance, the expenditures (exclusive of administrative ones) for geological surveys and explorations, for mining-salvage work (the latter up to 1927-1928), for guarding idle plants against damage (up to 1925-1926), and for studying the Kursk anomaly.<sup>7</sup> Yet, in view of the fact that these expenditures represent a negligible part in the sum total of budget financing, we do not include them, but limit ourselves to the study of three sources of financing: budget, intra-industrial, and credit.

The financing of industry (including syndicates) and electrical construction from these three sources is shown in the table on the opposite page.

<sup>7</sup> The phenomenon elsewhere called "the Kursk magnetic anomaly," a deviation of the compass needle in that locality, is still unexplained. (TRANSLATOR.)

## SOURCES OF INDUSTRIAL FUNDS

(Million rubles)

Source	1924-1925	1925-1926	1926-1927	1927-1928*
Financing in the consolidated and the local budgets.....	200.9	385.1	625.3	837.1
Intra-industrial investment† ..	532.0	689.5	635.9	747.0
Bank credit‡ .....	569.1	385.6	484.4	330.0
<b>Total</b> .....	<b>1,302.0</b>	<b>1,460.2</b>	<b>1,745.6</b>	<b>1,914.1</b>

\* Data of the state plan.

† Profits (exclusive of losses) plus amortization, minus contributions to the State Treasury. N.B. "Exclusive of losses" presumably means omitting establishments showing a loss. (Editors.)

‡ Difference between indebtedness at the end and the beginning of the year.

The financing of industry progresses more slowly than that of agriculture. In 1927-1928 it grew, as against 1924-1925, by only 47 per cent, while, as we have seen, the financing of agriculture from various sources grew in the same period by 61 per cent.<sup>8</sup> This, however, is due to the fact that the figures on which the percentages are calculated differ widely, for in 1924-1925 the amounts appropriated for industry exceeded those for agriculture several fold, and the further fact, that very considerable merchandise credits to industry have not been included in the foregoing table. The financing of industry, however, has one distinguishing trait; it is that while in agriculture credit sources play a more important part every year as compared with budget sources, in industry the reverse is the case. Thus the relative proportions of the various financial sources for industry are as follows:

## PERCENTAGES OF EACH OF THE SOURCES OF INDUSTRIAL FUNDS

Source	1924-1925	1925-1926	1926-1927	1927-1928
Budget sources .....	15.4	26.4	35.8	43.7
Intra-industrial earnings .....	40.8	47.2	36.4	39.0
Bank credit .....	43.8	26.4	27.8	17.3
<b>Total</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>8</sup> As already noted Russian statisticians lay what seems to us to be too great stress on percentage increases over short periods based on small beginnings. (Editors.)

To appreciate the ratios above, it must be remembered that the amounts of intra-industrial accumulation show a growth in absolute amounts from year to year (except for a small decrease in 1926-1927). If the fund from intra-industrial earnings of 1924-1925 be taken as 100 per cent, that of 1925-1926 will be 129.6 per cent, that of 1926-1927 will be 119.5 per cent, and that of 1927-1928 will be 140.4 per cent. The decline of 1926-1927 is due to a sharp increase in that year of contributions to the State Treasury. These were 23.7 per cent of the gross industrial earnings in 1924-1925, and 26.2 per cent in 1925-1926; in 1926-1927 they rose to 39.7 per cent, and in the course of 1927-1928 reached 40.7 per cent. That was why, in 1926-1927, the budget's share increased relatively.

The accounting balance between industry and budget (state as well as local) began to be favorable to industry in 1925-1926. The movement of the balance as between budget financing of industry and the latter's payments to the Treasury for the years 1925-1926 to 1927-1928 was as follows:

**EXCESS OF PAYMENTS FROM BUDGET OVER RECEIPTS,  
ALL INDUSTRY**

	(Million rubles)		
Class	1925-1926	1926-1927	1927-1928
Exclusive of electrical construction.....	109.8	161.2	288.3
With electrical construction.....	184.9	279.7	460.1

This growth in budget financing of industry and electrification took place not at all equally in all branches. The distribution of appropriations between these is of great interest, since it is here that the national-economic purposiveness of the budget becomes especially apparent. The ultimate aims of socialistic industrialization and the estimate of economic effectiveness of capital investments in each case dominating over those of commercial profitableness of one or the other branch. This is the more necessary and possible since under the conditions of Soviet economy the mere profits of an enterprise depend, in the final count, upon the level of fixed prices established by the state. If we had undertaken to

study the connection between the commercial profitability of separate branches of industry and the size of capital investments in them from state budget sources, we should find no correlation between the two—either direct or inverse. Budget financing of separate industrial branches has its own laws, which rest not on commercial profitability, but on the planned method (purposes) of development of national economy in the U.S.S.R.

#### IV. FUNDS FOR ELECTRIFICATION

It will be interesting to separate the budget financing of industry in the narrow sense from the financing of electrification. The absolute amounts allocated from the consolidated State budget are as follows:

#### FUNDS\* FOR ELECTRIFICATION AND FOR INDUSTRY COMPARED

	Million Rubles	Percentage of Preceding Year
<i>Electrification</i>		
1924-1925 .....	51.6	.....
1925-1926 .....	66.8	129.4
1926-1927 .....	102.5	153.4
1927-1928 .....	135.1	131.7
<i>Industry</i>		
1924-1925 .....	149.3	.....
1925-1926 .....	203.5	136.3
1926-1927 .....	457.8	224.9
1927-1928 .....	650.3	142.0

\* Exclusive of financing through the Central Bank of Communal Credit, but including the Loan for Economic Reconstruction.

The financing of electrification is directed into three main channels: extension and re-equipment of existing power stations of general use; construction of new stations; and development of local and rural electrification. The ratios between these three ultimate destinations in 1927-1928 are approximately as follows: the first is to receive about 40 per cent of the budget appropriations for electrification, the second, about 50 per cent, and the third about 10 per cent. The total expenditures, while growing from

year to year, nevertheless maintain, during these four years, a fairly steady ratio to the total budget financing of national economy (7 to 8 per cent).

The financing of electrification, however, is not limited to appropriations from the state budget, the latter being about 55 to 60 per cent of the total in 1927-1928; the remaining 45 to 40 per cent was covered from other sources, such as the funds of the electrical stations themselves (amortization deductions, interest on capital invested, and profits of those stations already in running condition), funds of local budgets, and bank credit.

#### V. FUNDS FOR SELECTED INDUSTRIES AND AIMS

The movement of the proportions of budget allocations (in the consolidated budget) in the various industrial branches during the last four years has been as follows:

#### BUDGET ALLOTMENTS FOR INDUSTRY TO EACH BRANCH

(Percentage of total for all branches)

Branch	1924-1925	1925-1926	1926-1927	1927-1928	For Four Years
Coal mining .....	14.8	18.6	12.6	11.4	13.5
Petroleum industry ....	....	0.1	6.2	6.4	4.5
Mining, gold, and platinum .....	2.7	4.6	4.9	5.0	4.7
Metallurgical industry ..	46.9	28.3	32.6	36.9	36.8
Electrotechnical .....	2.7	2.7	1.4	1.1	2.1
Chemical .....	3.9	5.7	4.7	6.8	5.7
Cement .....	1.3	5.9	5.9	3.8	4.6
Timber .....	3.3	10.7	10.6	8.3	9.0
Paper .....	0.6	3.0	2.9	1.8	1.4
Textile .....	....	1.1	1.7	2.3	1.7
Tanning .....	....	0.8	1.0	0.6	0.7
Food .....	4.3	6.7	6.8	2.6	3.3
Scientific technical institutions .....	1.3	0.8	0.7	1.3	1.0
Other .....	18.2	11.0	8.0	11.7	11.0
Total .....	100.0	100.0	100.0	100.0	100.0

For an understanding of the movement and the structure of the budget financing of industry, we must remember that

it was not until 1924–1925 that the financial system of the Union got its first fixed budget (this was rendered possible by the monetary reform of 1924); and that not only in that year, but even in 1925–1926 the financial system was still groping its way and seeking to find the right proportions in which to finance separate branches. We have seen that when considerable contributions from the receipts of industry to the State Treasury were decided upon, in 1925–1926, the budget's accounting balance with industry was still decisively in favor of the latter. In 1926–1927 the payments by industry into the budget were increased by 62 per cent; but at the same time the budget increased its accounting balance in favor of industry by 47 per cent. Besides, budget appropriations to industry go in two directions: (1) providing fixed capital, and (2) providing working or circulating funds. This distinction was not clearly adhered to, however, until 1926–1927, inasmuch as large capital investment did not begin until 1925–1926. Therefore, an approximately correct idea of the composition of the budget appropriations to industry can be had only from the budgets of 1926–1927 and 1927–1928. Even now, since industry is still in the process of intensive reconstruction, we cannot hope to find any stabilized proportions of budget financing of the various branches, or any budget trends that would not be subject to change in accord with reconstructed plans for the whole national economic situation or for the separate branches of industry. Still, we must bear in mind that the financial position of the state's industrial undertakings in the U.S.S.R. has peculiarities which are unknown and perhaps would not be understandable under capitalistic conditions.

Even the state industrial enterprises of the Soviet Union are obliged to keep a prescribed ratio between their short-term liabilities and their liquid assets, i.e., must exploit their short-term credits in a normal manner. Budget financing of industry, with its division of appropriations between financing fixed and circulating capital, aims—from the standpoint of industry's financial conditions—at preserving and, if necessary, restoring the solvency of industrial undertakings

which might be thrown out of equilibrium in the process of expansion and construction. Thus, for instance, the intensive growth of industry and the still more rapid growth of capital construction in 1926-1927 did, as a matter of fact, somewhat lower the ratio of liquid assets to short-term obligations between October 1, 1926, and October 1, 1927. Industry's financial plan for 1927-1928 was therefore so revised as to prevent this tendency from gaining further impetus, and to stabilize the ratio of liquid assets to short-term obligations at its level as of October 1, 1927.

These peculiarities of the budget, aiming, as they do, at distributing accumulated capital between the various branches of industry in accordance with construction and production plans, and the parallel activity of the credit system, must not be lost sight of when studying the movement and structure of budget appropriations.

The table given above shows that during the last four years, budget financing of industry was, in the main, directed toward forwarding the production of tools and equipment. The ratio of budget financing to the aggregate of industrial resources differs for different branches and is not dependent upon the absolute figures of funds from all sources. The study of this interesting and extremely important side of budget financing is possible only with regard to industries of Union-wide importance, for which there are combined provisional balance sheets on October 1, 1926, 1927, and 1928, by individual branches.

The ratio of indebtedness of industry to the budget, in the two important subdivisions of industry is as follows:

**INDEBTEDNESS TO THE BUDGET IN PERCENTAGES  
OF ALL LIABILITIES\***

	Oct. 1, 1926	Oct. 1, 1927	Oct. 1, 1928
Industries making tools and industrial equipment .....	4.3	9.1	13.8
Industries producing articles of consumption .....	1.8	1.9	1.8

\* Or of their equivalent, "the assets." The reference is to the totals of the debits or credits on the balance sheet. (EDITORS.)



We observe not only a greater relative weight of budget financing but an altogether different line of growth in the first group as compared to the second. The importance of budget financing for capital accumulation in that group of industries which makes tools and industrial equipment has trebled, while for industries concerned with articles of consumption it has remained stationary.

But even the first group is not uniform throughout. The following table gives the percentage ratios of indebtedness to the budget compared with resources in the various branches of industry engaged in making tools and industrial equipment:

**INDEBTEDNESS TO BUDGET, IN PERCENTAGE OF ALL  
LIABILITIES\* BY INDUSTRIES**

Industry	Oct. 1, 1926	Oct. 1, 1927	Oct. 1, 1928
Mining .....	18.6	29.7	36.1
Coal .....	13.0	19.5	25.3
Forest .....	13.3	21.0	24.5
Chemical .....	5.2	11.3	23.7
Metal .....	2.7	7.7	13.2
Electrotechnical .....	3.2	5.9	7.0
Cement .....	...	2.8	5.9
Petroleum .....	1.3	2.8	4.7

\* See note to preceding table.

The increase of budget financing appears in all branches of heavy industry, but the rates of this increase and the degrees of the importance of budget aid differ. While the absolute sum applied in financing the metallurgical industry for the last four years is over one-third of all industrial budget appropriations, the latter play a smaller part in that industry than they do, for instance, in the chemical industry, whose share is less than 6 per cent of the budget advances to all industries.<sup>9</sup> The extent of variation in the relative

<sup>9</sup> Of course we must bear in mind that the data above (p. 370) of the relative weights of financing of different branches of industry are not comparable with the data of the relative weight of budget financing in the balance sheet of a given branch, for there we spoke of the Union's and the Republics' industry, while here we speak of the Union only. However, the sequence of the figures here is such that the comparison is still valid.

proportion of budget funds in the different branches is also noteworthy.

The same variations and the same divergence between the relative amount of budget support given a particular branch in the general total of industrial appropriations from the budget and the importance of the latter in the resources of the given branch may be noted with regard to light industry.

PERCENTAGES OF INDEBTEDNESS TO THE BUDGET OF ALL  
LIABILITIES OF LIGHT INDUSTRY

Industry	Oct. 1, 1926	Oct. 1, 1927	Oct. 1, 1928
Chemical .....	0.4	0.3	0.2
Paper .....	0.8	0.7	3.1
Sugar .....	...	6.8	7.3

The textile industry is not financed from the budget of the Union at all. The 1.7 per cent of budget appropriations for industry which were shown above<sup>10</sup> as given to textile enterprises goes to such of the latter as are in the domain of individual republics, chiefly for the support of the textile industry in frontier lands. As distinct from the basic chemical industries, the financing of chemical plants producing articles of consumption (rubber goods, perfumery, etc.) is negligible. The share of budget appropriations to the paper industry is less than in heavy industry, but it shows a rapid growth. Finally, the importance of budget support to the sugar industry is the same as for the electrotechnical, though it is greater than in the case of the petroleum industry.

There is no doubt that the extent of budget support in the several branches of industry depends on the importance which the given branch ought to have in view of its production and its financial needs. In this connection, it is extremely interesting to note the division into funds for fixed capital investments and current accounts.

On the opposite page is the data for all Union industries.

<sup>10</sup> On p. 370, above.

## FIXED CAPITAL FUNDS AND FUNDS FOR CURRENT ACCOUNTS

	Total Funds from All Sources in Million Rubles	Budget Funds in Million Rubles	Percent- age from the Budget
<i>Industrial branches producing tools and equipment</i>			
Financing of fixed capital			
1926-1927 .....	560.4	198.2	35.3
1927-1928 .....	618.8	217.3	35.1
Financing of current accounts			
1926-1927 .....	319.1	90.8	28.1
1927-1928 .....	367.7	151.5	41.1
<i>Industrial branches producing articles of consumption</i>			
Financing of fixed capital			
1926-1927 .....	179.8	0.2	0.1
1927-1928 .....	221.1	3.7	1.7
Financing of current accounts			
1926-1927 .....	237.8	16.0	6.8
1927-1928 .....	229.7	....	....

In the various branches of light industry, budget financing of fixed capital as well as of circulating capital is very small; for the heavy industry in its various branches it is, as we see, of great importance. The financing of capital investments for the last two years has been fairly stable, while the financing of current accounts in 1927-1928 shows a vigorous increase. This is connected with the decline of the solvency of industry in 1926-1927 already mentioned, owing to the tying up of a large part of industry's own means in capital construction, fixed assets. The increased financing aims to relieve the short-term bank credit system from the embarrassment of a number of doubtful accounts. And, indeed, while the budget financing of the circulating capital of heavy industry in 1927-1928 increased by almost 67 per cent in comparison with the preceding year, the corresponding short-term bank credit decreased by nearly 12 per cent.

By separate branches of heavy industry of Union-wide importance, the division of budget funds between capital investments and the reinforcement of circulating capital, during the last two years, has been as follows:

# **DIVISION OF BUDGET ADVANCES BETWEEN FIXED AND CIRCULATING CAPITAL BY INDUSTRIES**

(Percentage of funds from all sources)

Industry	1926-1927		1927-1928	
	For Capital Investment	For Reinforcing Current Means	For Capital Investment	For Reinforcing Current Means
Mining .....	51.9	15.4	56.5	43.2
Coal .....	44.8	25.9	37.4	68.8
Petroleum .....	14.6	15.2	7.0	43.2
Metal .....	43.5	23.0	44.5	35.7
Chemical .....	35.7	33.7	65.6	53.0
Timber .....	38.0	45.7	61.7	27.6
Electrotechnical ..	42.1	11.1	37.6	7.2

We have examined above<sup>11</sup> the data pertaining to the accounting balance between industry and the budget. The movement and structure of the financing in separate branches illustrate the distributive functions of the budget. Still, the mechanism of distributing, through the budget, the capital accumulated by industry can be understood only when the mutual connection is borne in mind between budget financing, earnings retained, and contributions to the budget from the profits of the different branches. In this respect we have data only for 1926-1927, also only for all Union industry. But these suffice to show this interesting and characteristic feature of the budget. The relation between contributions into the Treasury (income tax and from profits) and capital increment (profits plus amortization) presents the following picture in the two subdivisions of industry:

## **CONTRIBUTIONS IN PERCENTAGE OF EARNINGS**

	Percentage
Industry concerned with making tools and equipment..	24.0
Industry producing articles of consumption.....	33.7

On the other hand, the difference between budget advances and contributions to the budget, in income tax and from the profits only, not counting the 8 per cent loan<sup>12</sup> was:

<sup>11</sup> See p. 372, above.

<sup>12</sup> The 300,000,000 rubles loan for "economic reconstruction" of August 1925 was at 10 per cent. What seems to be referred to here is the second domestic loan, June 1926, for 100,000,000 rubles at 8 per cent. (EDITORS.)

for industry producing tools and equipment, 498 per cent in favor of industry; for industry producing articles of consumption, 717 per cent in favor of the budget. In other words, the budget takes from light industry seven times what it gives to it, in order to give to heavy industry five times what it takes from that. In absolute figures this meant, in 1926-1927, for all industry throughout the Union, that the budget, having obtained from light industry about 116 million rubles over and above what it had given to that industry, redistributed that amount between the branches of the heavy industry and added 108 million more which had been obtained from other budget sources, from tax income, and, among others, from the receipts of the 8 per cent loan.

The redistribution of means between the branches of heaviest industry took place in 1926-1927 only with regard to the petroleum industry, from which the contributions to the budget exceeded the budget advances by 14 per cent. All other branches of heavy industry receive from the budget considerably more than they give to it from their accumulated means, although the weight of contributions, that is, the degree of the regulating influence of the budget upon the distribution of accumulated capital is different for each given branch. Throughout the whole of industry, including the light, the weight of contributions may be seen from the following table:

**CONTRIBUTIONS TO GOVERNMENT FUNDS IN  
PROPORTION TO EARNINGS**

	Percentage
<i>Branches producing industrial equipment:</i>	
Coal .....	14.1
Petroleum .....	22.8
Metal .....	24.3
Electrotechnical .....	35.3
<i>Branches producing articles of consumption:</i>	
Chemical .....	41.4
Paper .....	41.7
Textile .....	34.8
Sugar .....	17.4

The process of redistribution of the capital accumulated in industry is not confined to this function of the budget.

Alongside of it another organ of distribution is active, the Section of Long-Term Credit of the Industrial Bank (at present called the Long-Term Credit Bank for Industry and Trade), and to a certain extent the whole credit system works in the same direction, being, as it is, subordinated to the regulating and planning control in the popular economy of the U.S.S.R. On the other hand, the process of redistribution of capital between various branches of industry through the budget does not end with distributing those contributions which are shown above. Omitting for the moment the contributions obtained by means of collecting on the state bonds distributed among separate branches of industry, the latter participate in the budget through that portion of their current funds which the budget receives in the form of taxes and duties. However, even in this respect, the position of state industry with regard to the budget is no different in principle from the position of private industry and that of the other branches of the country's economy. Inasmuch as these taxes and duties enter into the calculation of price, they do not mean contributions from industry, but contributions from the income of various classes of the population.<sup>13</sup>

#### VI. FUNDS FOR CAPITAL INVESTMENTS IN TRANSPORTATION, COMMUNICATION, TRADE, AND DWELLINGS

Budget financing of industry represents, as we have seen, a huge economic maneuver in budget form, aiming at the

<sup>13</sup> This is a naïve theory of the incidence of taxation and hardly consistent with the theory of a "planned" economy directing and controlling consumption. Even in a capitalistic country we find that the taxes are not so certainly passed on to the consumer, and even where they are, since price affects buying, there may be very serious consequences affecting the producer. Thus, obviously, taxes may be high enough to cut off many consumers and may so curtail sales as to even kill the industry. But under Soviet theory the government decides first that this industry shall thrive and that be repressed, and then how much each possible consumer shall have of the permitted or approved wares. As long as prices are fixed or regulated by such a government it becomes of prime importance to consider not merely the technical shifting of the taxes but even far more the constructive or destructive effects thereof on the "plan of economy." In the very next section the author contradicts his statement that taxes do not mean "contributions from industry." (EDITORS.)

reinforcement of those sections of industrial production and construction which are weakest financially or are the most important from a national-economic point of view. The distributing work of the budget in financing transportation is similar, though less complicated. Here it has a dual character: distributing capital among various branches of the transportation system as a whole; and between various sections of one kind of transportation. In addition, the budget here fulfills its customary function of redistributing available funds obtained from the total national income among various sections of the country's economy. Since both the receipts and expenditures of the transportation system are entered in the budget, the extent to which the budget aids transportation out of sources other than transportation earnings is revealed by the difference between the receipts and expenditures of the transportation system. This difference (in percentage of the excess of expenditures over receipts) has been as follows:

1924-1925 .....	0.3 per cent
1925-1926 .....	2.4 per cent
1926-1927 .....	12.1 per cent
1927-1928 .....	19.0 per cent

From year to year the deficits made good out of the budget have grown, but if we exclude operating costs and consider only expenditures for capital construction, we get a different picture:

#### BUDGET ADVANCES FOR RAILROAD CONSTRUCTION

Year	Million Rubles
1924-1925 .....	126.7
1925-1926 .....	176.2
1926-1927 .....	382.0
1927-1928 .....	557.0

---

Total for four years..... 1,241.9

Thus the budget has not contributed to operating costs out of extra-transportation resources. In fact, the transportation system itself has been creating a surplus of receipts

over operating costs, which surplus went into the budget and thence to the financing of transportation construction. These surplus amounts have been as follows:

#### SURPLUS EARNINGS OF TRANSPORTATION

	1925-1926	1926-1927	1927-1928	Total for Three Years
Percentage of operating receipts	11.8*	13.3*	15.2*	13.6
Percentage of expenditures on capital construction . . . . .	81.1	49.4	40.9	50.2

\* In chapter five, p. 327, the railroad operating ratios are given as follows: 94.5 for 1923-1924; 84.2 for 1924-1925; 85.6 for 1925-1926; 83.3 for 1926-1927; and 79.4 for 1927-1928 (apparently advance estimates). For certain of the years, namely 1924 to 1927, inclusive, the same figures appear in chapter three (p. 256, above) by another author. From these sources, which agree, the net operating income of railroads alone is, in percentage of gross receipts: 15.8 for 1924-1925 (not here included); 14.4 for 1925-1926; 16.2 for 1926-1927; 20.6 for 1927-1928. The differences here may be accounted for by the inclusion of other branches of transportation than railroads. (EDITORS.)

For the last three years, then, the transportation system has shown independent growth, and it was only the extensive new construction after the great debacle caused by warfare and revolution that called for budget financing. About 60 per cent of the appropriations for capital construction were made out of amounts received from the operations of the transportation system itself.

The data above cover all transportation activities except those of a narrowly local character; but the subventions from the budget are not distributed equally among all kinds of transportation. While the railroads received in four years only 23.6 per cent of all budget subventions to transportation, the other branches (waterways, highways and roads, ports) were as a matter of fact carried almost wholly on the budget appropriations, which furnished about 90 per cent of all their expenditures. Through railroad subventions, the budget performs the function of redistributing means among different roads in a fashion similar to its operations in financing industry, as explained above.

Appropriations from the state budget for capital construction in separate branches of transportation have increased as follows:



**INCREASE FROM YEAR TO YEAR IN TRANSPORTATION  
CONSTRUCTION\***

(Percentage)

Branch	1925-1926 over 1924-1925	1926-1927 over 1925-1926	1927-1928 over 1926-1927
Railways .....	202.4	143.7	177.9
Waterways .....	103.4	123.0	123.0
Seaports .....	169.2	130.3	172.1
Highways and roads.....	86.6	119.2	466.1

\* These percentages and some following are not especially instructive. Other better data may be found in chapter three, pp. 256 ff., above. (Editors.)

The financing of sea and river shipbuilding should also be classed with budget allocations for transportation; these subventions, however, go not only through the Commissariat of Ways and Communications but also through the estimates for financing industry, the ratio between the contributions from these two sources during the four years under consideration having been 1 : 6.

Budget appropriations for shipbuilding have been as follows:

**BUDGET APPROPRIATIONS FOR SHIPBUILDING**

(Percentage)

Source	1925-1926 over 1924-1925	1926-1927 over 1925-1926	1927-1928 over 1926-1927
Through the Commissariat of Ways and Communications. ....		128.0	242.5
Through industry .....	291.7	250.0	170.9

Budget financing of capital expenditures in the service of communication (mails, telegraph, and telephone) shows the following amounts:

	Million Roubles
1924-1925 .....	15.2
1925-1926 .....	22.7
1926-1927 .....	26.7
1927-1928 .....	36.1
<b>Total for four years.....</b>	<b>100.7</b>

Deducting expenditures for capital construction from the total expenditures, we obtain the following ratio of the excess of receipts over operating costs to operating receipts, and to the financing of capital expenditures for that service:

#### SURPLUS OF COMMUNICATIONS RECEIPTS OVER EXPENSES

	1925-1926	1926-1927	1927-1928	Total for Three Years
Percentage of operating receipts	24.2	14.7	20.8	19.7
Percentage of expenditures for capital construction .....	115.0	78.6	82.3	92.3

The receipts of the Commissariat of Posts and Telegraphs in 1924-1925 and 1925-1926 not only covered all the expenditures of these branches including capital construction, but yielded a surplus.<sup>14</sup> In 1926-1927 and 1927-1928 these surplus amounts became considerably smaller on account of a material widening of the service, among other places in rural districts; still they sufficed to cover 80 to 82 per cent of the capital construction expenses of the system, although this construction in 1927-1928 increased to 2.2 times that in 1924-1925.

An especially vigorous growth has been shown during the last four years in the budget financing of trade. In absolute figures it is as follows:

#### FINANCING TRADE

	1924-1925	1925-1926	1926-1927	1927-1928	Total for Four Years
Million rubles .....	7.8	24.8	61.2	118.2	212.0
Percentage of preceding year .....	...	318.0	246.7	193.1	.....

In these budget appropriations, as in those for other branches of popular economy, the huge reconstruction processes of the late years find their expression. In the domain of trade they are connected with the widening and reconstruction of establishments for technical aid. Capital ex-

<sup>14</sup> See chapter three, pp. 256 ff., above. (EDITORS.)

penditures for trade and warehousing amounted to about 825 million rubles in four years. Expenditures for the construction of grain elevators were five times as great in 1926 as in 1924. The aggregate cost of technical construction for the traffic in perishable goods grew almost threefold between 1924-1925 and 1925-1926. Capital investments of the trade organizations themselves grew 3.7 fold between 1924 and 1927. This growth of construction for technical aid required corresponding assistance from the budget. So did the turnover resources of state and co-operative trade, whose turnover (or sales) between 1924-1925 and 1927-1928 increased 62 per cent for state and 120 per cent for co-operative trade.

Of great interest is the budget financing of dwelling construction, which is closely connected with the industrialization of the country. The total amount invested by the communal section of national economy in dwelling construction in four years has been estimated at 1,009.6 million rubles. The sources have been as follows:

#### SOURCES AND AMOUNTS OF DWELLING CONSTRUCTION

Source	Million Rubles	Percentage of Total
State budget by funds for financing industry, transportation, and special funds.....	306.0	30.3
Local budgets .....	195.0	19.3
Total from budgets.....	501.0	49.6
Central Office for Social Insurance (Tsu-strakh) .....	223.0	22.1
Fund for improvement of workingmen's living conditions .....	182.5	18.1
Other sources .....	103.1	10.2
Grand total .....	1,009.6	100.0

If from the 306 million rubles allotted from the state budget for this purpose we exclude those appropriations which go through the estimates for financing industry and transportation, the direct appropriations for dwelling construction from the state budget, through the Central Communal Bank, amount, for four years, to 235 million rubles,

or 23.5 per cent of all the investments for that purpose coming from communized national economy.

In 1926-1927 the appropriations for building in local budgets increased materially (increasing 3.3 fold as against 1925-1926) and those from the state were reduced. The allocations from the Central Office of Social Insurance also increased (threefold) as did those from the fund for the improvement of working-people's living conditions (by 57 per cent). In the following year, 1927-1928, appropriations from all these sources as well as directly from the resources of the communes continued to grow; but dwelling construction assumed such a pace that considerable new reinforcements from the state budget became necessary. Thus, while appropriations for this purpose from all sources besides the state budget had grown in 1927-1928 by 17.6 per cent, the total amount spent for the construction of dwellings grew by 32 per cent. Consequently the budget appropriations also increased, both through the Central Communal Bank and through the financing of the corresponding industries.

#### VII. FUNDS FOR COMMUNAL UNDERTAKINGS, HOUSING, AGRICULTURE, AND ROADS

We have given, above, data relating to the financing of popular economy from local budgets under the heading of economic-productive expenditures. In the course of four years these expenditures amounted, as we have seen—exclusive of the current accounts of communal undertakings and special funds—to 1,525.6 million rubles, or 32.4 per cent of all the appropriations in the state budget. This is an imposing figure by itself; yet it has decreased as against the actual expenditures of local budgets for public economy. The appropriations for economic production are made on the basis of estimates prepared by regional (oblast), gubernia, and district (okrug) executive committees. But even apart from the question of the size of the local budget appropriations for economic purposes, the economic-productive expenditures of the local soviets have a special interest by reason of the variety and importance of the requirements

which they satisfied. The local soviets have on their hands the problems of reconstructing and extending the system of communal enterprises and of dwellings which had suffered greatly during the World War and the civil war, the upkeep of the land-surveying, the veterinary service, land allotments, and improvements, the financing of road building and of the other kinds of local transportation and communication service. Finally, the local soviets face growing demands from local industry which occupies its allotted place in the entire scheme of the industrialization of economy.

The composition of the gross expenditures for economic-productive purposes from local budgets, and their movement, are shown in the following table:

**LOCAL EXPENDITURES FOR ECONOMIC PRODUCTIVE  
PURPOSES**

(Million rubles)

	1924-1925	1925-1926	1926-1927	1927-1928
Communal economy and communal undertakings .....	220.5	299.3	356.5	388.2
Local industry .....	0.5	9.8	70.5	74.2
Agriculture .....	32.3	49.8	67.4	84.0
Ways and communications.....	15.6	27.6	40.0	53.0
Special capital and special expenditures .....		49.1	124.0	157.8

The bulk of these expenditures, as we see, goes to communal economy and communal undertakings, followed by agriculture. The group headed "special capital and special expenditures" contains various kinds of economic expenses including special subventions to local industries.

Expenditures for communal economy and communal undertakings consolidate a number of outlays of the local budgets on account of the dwelling fund, communal improvements, and undertakings of public use, such as paving, sidewalk-making, street lighting, water, sewers, electric power stations, street cars, auto-busses, etc. Roughly, and far from completely, the municipal funds for dwellings in cities is appraised, throughout the Soviet Union, at 7.5 billion rubles, and the fund of communal improvements at about 2.0 billion rubles.

Owing to the condition of our statistical material we are unfortunately unable to construct a separate balance sheet of the local budgets to show how the communal dwelling fund compares with the others. But it appears that the favorable balances of earnings of all local funds tend to diminish, both relatively and absolutely.

The movement of the sums passing from communal undertakings into the local budget has been as follows:

**PERCENTAGE OF THE RECEIPTS OF COMMUNAL ECONOMY  
GOING TO LOCAL BUDGETS\***

1924-1925 .....	25.6 per cent
1925-1926 .....	15.1 per cent
1926-1927 .....	7.3 per cent
1927-1928 .....	2.9 per cent

\* Including all the sections of budgets.

The data given above (page 385) on gross expenditures for communal undertakings include operating expenses. If we exclude these items, we shall get an idea of the capital investments in communal economy through the local budget. These amounts are as follows (for communal economy in its entirety) :

**INVESTMENTS IN COMMUNAL ECONOMY**

1924-1925 .....	25 million rubles
1925-1926 .....	111 million rubles
1926-1927 .....	195 million rubles
1927-1928 .....	254 million rubles

Capital investment from the funds of local budgets shows progress especially in the case of the municipalized dwelling fund, although the sum total of these investments is very modest compared with the growth of the cities' requirements in the matter of dwellings. In the course of the four years, appropriations from the local budgets for the purpose of dwelling construction have amounted to 195.3 million rubles, being divided as follows:

## APPROPRIATIONS FOR DWELLINGS FROM LOCAL BUDGETS

	Million Rubles	Percentage of Preceding Year
1924-1925 .....	10.6	.....
1925-1926 .....	21.2	200.0
1926-1927 .....	70.6	333.0
1927-1928 .....	92.9	131.5

The financing of dwelling construction from local budgets in the course of these four years has been progressing at a much faster rate than that from the consolidated state budget, and not until the year 1927-1928 did it begin to fall behind the latter. It is impossible as yet to say with assurance—for lack of data—what is the kind of dwellings on which the subventions of local budgets are being spent. Approximate calculations show that about 10 per cent of the expenditures from the dwelling fund go toward the housing of trade and industry and some 90 per cent for dwellings proper—repairs and new construction.

As divided among the principal kinds of communal undertakings, the increase of capital investment from local budgets for 1927-1928 (as allocated) compared with that for 1926-1927, was as follows:

## CAPITAL INVESTMENTS FROM LOCAL FUNDS BY PURPOSES

	Water	Sewers	Street Cars and Auto- Busses	Electrical Power Building
Increase of capital investment in 1927-1928 over 1926-1927 in percentage .....	72.0	40.6	43.9	67.3
Ratio of capital investment to total expenditures for the given kind of undertaking				
1926-1927 .....	40.9	50.3	27.8	44.8
1927-1928 .....	54.0	61.3	33.9	55.4

For all the named kinds of communal enterprises the ratio of capital investment to the sum total of expenditures grows in spite of a considerable increase in the use of their service. Besides the increased services rendered by these enterprises, their number has also grown. Thus we have, for

the Russian Republic in 1926–1927, as compared with 1912, an increase of 37.5 per cent in the number of waterworks, of 107 per cent in the number of sewer systems, of 13 per cent in number of street car systems, and of 70 per cent in number of electric power stations.

The financing of industry from local budgets, like the financing of communal undertakings, can be ascertained only with great difficulty. Some of the local industries exist on the basis of “home accounting” (self-supporting) and appear in the budget only by their balances; the rest are completely carried on the budget with all their gross receipts and expenditures. In computing the accounting balance as between industry and budget we must also not lose sight of the fact that the budget receives some revenue from leased enterprises.

The financing of industry from the local budgets moved sharply upward, as we have seen, in 1927–1928. This increase is to a certain extent apparent only, and is due to purely accounting changes. In 1925–1926 and 1926–1927 subventions to industry, entered under the caption of “special expenditures,” were not included, but they were in 1927–1928. There is no doubt, however, that in 1926–1927 and especially in 1927–1928, appropriations from the local budgets for industry greatly increased. Still, contrary to what we found in the relation of all industry to the consolidated budget, the accounting balance of the local budget and local industry is in favor of the budget. In 1926–1927 this accounting balance amounted to 20.8 million rubles, and in 1927–1928 to about 19.5 million. At the same time, however, the intra-industrial investments in local enterprises (reserve capitals, amortization, special funds) continued to grow. They were 137.9 million rubles in 1926; 234.6 million rubles in 1927; and 361.7 million rubles in 1928. For the three years, intra-industrial capital accumulation aggregated 734.2 million rubles. However, this amount and the appropriations from local budgets do not make up the entire accumulated capital of local industry, for certain amounts are granted to it also from the state budget.

The expenditures of local budgets for agricultural pur-



poses are, of course, different in nature in the various republics and regions. But these expenditures have two characteristic traits in common: they have developed rapidly during the latest years; and a large portion of them is made up of expenditures for agronomy and animal husbandry needs—that is, about 46.5 per cent of all expenditures are for agriculture. The rate of increase of these is as follows:

#### GROWTH OF LOCAL AGRICULTURAL EXPENDITURES

(Percentage of preceding year)

Class	1925–1926	1926–1927
Agronomy .....	135.3	150.2
Animal husbandry .....	170.0	160.4

The absolute amounts of allocations for agronomy and animal husbandry from local budgets were 12.9 million rubles in 1924–1925; 20.1 million in 1925–1926; and 32.4 million in 1926–1927. The expenditures for agricultural progress also are greater every year; yet they are insufficient, and as the vast amounts required for such measures and for irrigation would be too burdensome for the local budgets, a predominant share of these expenses is contributed by the state budget.

The expenses for land surveying and land settlements are also borne by local budgets in part only.

The financing of road building by local budgets grows steadily. In 1925–1926 it increased by 72.5 per cent; in 1926–1927, by 29.4 per cent; and in 1927–1928 by 42.1 per cent, as compared with the preceding year in each instance. Appropriations for local road construction include sums for ferries, team service, etc., as well as for the building, repairing, and upkeep of roads. The expenses of the second group were about 81.9 per cent of the total in 1924–1925; 93.5 per cent in 1925–1926, and about 98 per cent in 1926–1927. Thus the second group of expenses dominates and grows much more rapidly than the first.

In addition to the local budgets, local economy has another source of income, namely, credit. The total indebtedness of local economy on short-term and long-term credit (exclusive of the system of agricultural credit and of mutual

credit societies) was 1,078.6 million rubles on October 1, 1926; 1,526.3 million on October 1, 1927; and 1,891.2 million on October 1, 1928. A comparison between appropriations from local budgets for local economy (exclusive of those for agricultural needs and of receipts and expenditures of communal undertakings) with the amounts obtained by local economy through the credit system is as follows:

#### LOCAL FUNDS FROM BUDGET AND CREDIT SOURCES

(Million rubles)

	1926-1927	1927-1928
Budget sources .....	412.4	503.2
Credit sources .....	447.7	364.8

In 1926-1927 the credit resources of local economy exceeded its budget resources, but in 1927-1928 the situation was reversed. The credit system is a potent factor in local economic betterment. The relative weight of long-term loans for definite purposes in the total indebtedness of local economy to banks is growing continuously. Thus long-term loans were 21.1 per cent of the local economy's indebtedness on October 1, 1926; 28.5 per cent on October 1, 1927, and 35.6 per cent on October 1, 1928. This development of local credit and, in particular, of long-term credit, is due to the growth and strengthening of the local systems of communal banks, which sometimes have held as much as half of the total indebtedness of this sort. However, we have here a phenomenon analogous to the one we have observed in the agricultural credit system. The state and the local budgets are the chief shareholders in the communal banks. On October 1, 1927, the holdings of the Union in the capital stocks of the communal banks were 29.6 per cent and those of the local governments, 42.9 per cent. On the other hand, the increase of the resources of the communal banks is due chiefly to the rapid growth of the funds of the Central Communal Bank, which increased from 37.1 million rubles on October 1, 1925, to 255.8 million on October 1, 1927—almost entirely on account of funds from the state budget. But this growth of their resources, made possible by the state and the local budgets, has permitted the communal banking

system to attract to itself considerable deposits and current accounts from various scattered areas of national economy and to apply these means to the work of economic reconstruction and improvement.

The process of industrialization extends, naturally, beyond the narrow domain of industrial production and construction. Electrification and transportation, and even such branches of national economy as city improvements and dwelling construction are treated as closely related to the interests of industrialization, and we have seen what vast amounts are appropriated for dwelling construction under the heading of financing of industry and transportation. Even agriculture—which, at first glance, seems the very antithesis of industry—has been made by the budget to participate in the work of industrialization. The large budget allocations for agricultural machinery and tractors, for irrigation, for the primary preparation of agricultural raw materials, and for the activities of soviet and co-operative agricultural units, together with the considerable means contributed by industry itself to agriculture—all aim at re-organizing the primitive peasant economy of pre-revolutionary Russia into an agricultural enterprise which will be connected technically and economically with the industrial system of the country and will enjoy all the advantages which a regular organization can give it.

The process of industrialization, moreover, does not limit itself merely to the domain of production of material values in industry and agriculture. Industrialization colors not only all branches of economy but the culture of the Soviet Union as well, and this policy naturally finds its expression on the expenditure side of the budget. A number of expenditures for so-called social-cultural progress serve the same purpose of raising national economy to an industrial basis; and the very growth of expenditures for the financing of popular economy requires a corresponding increase of expenditures for social-cultural needs and an adequate construction and reconstruction of the social-cultural work.

In this sense the whole budget of the U.S.S.R. may be called a budget of socialistic industrialization of national economy.

## CHAPTER EIGHT

### BUDGETS OF ALLIED REPUBLICS

*By A. M. Gordin*

#### I. FUNDAMENTAL TRAITS OF THE EVOLUTION OF BUDGET LAWS

The United Russian Empire is a federated commonwealth. It is so recently formed that the problem of adjusting the central administration to the needs of local autonomy has not been fully worked out. Adjustments of legal forms and of the financial organization to the various existing conditions are still in progress. However, the period of fundamental reconstruction has already come to its close; the budget system of the Union has become crystallized in its main features; and further reform will consist only of perfecting and bringing greater precision into laws already in existence. Omitting details of the history of the legal interrelations between the federal budget and those of the allied republics, we may limit ourselves to examining the main stages of development of the various budgets and their structure.

A central budget might be separate from those of the individual federated commonwealths. But in the U.S.S.R. we have a federal state budget combining federal and commonwealth budgets. This combination results from the plan of national economy which the country has adopted, and insures a great elasticity in government finance as a whole, an elasticity which is of prime necessity under conditions of a still unfinished budget consolidation and of a financial strain caused by a forcing of economic reconstruction. The fundamentals of federated statehood of Soviet Russia were proclaimed early in the Revolution (declaration of November 2, 1917, and January 31, 1918), and were fixed in the

constitution of July 10, 1918. On November 29, 1918, the existence of the Ukrainian Republic was sanctioned. In the course of 1920 to 1922 treaties of alliance were concluded between the Russian Republic and those of the Ukraine, Belorussia (White Russia), the Transcaucasian states and those of Central Asia. In the autumn of 1922, in the course of the First Federated (All-Union) Congress, the fundamentals of the federated union of Soviet Russia were ratified, and they received their final expression in the constitution of July 6, 1923 (ratified by the Congress of the Soviets of the Union on January 31, 1924). The Central-Asiatic republics—Uzbek and Turkoman—joined the Union as equal allied members in May 1925; and thus ended, in the main, the process of formation of the Soviet federation, for it still consists of the six named republics.

Budget laws proper were not much developed until 1923, financial hegemony being retained by the Russian Republic. In the constitution of 1923, however, we find that: "the establishment of a unified state budget for the U.S.S.R., including the budgets of federated republics," and "the fixation of general federal income and other taxes, as well as deductions from and additions<sup>1</sup> to them, which go to form the budgets of the individual republics . . . ." as well as "the sanctioning of supplementary taxes and collections for the individual budgets of the allied republics" (Section L, Article 1), are to remain within the competence of the Union.

Although the Union thus keeps jurisdiction over the receipts of the separate republics' budgets, the separate republics' expenditure budgets are not so closely limited. On this side the independence of the separate budgets is emphasized, as is expressed in the estimate regulations for 1923-1924 (August 21, 1923), which provide for the separate working out of the Union budget and of those of the republics.

<sup>1</sup> By "deduction" is meant the retention by or for a republic of a part—often a large part—of a tax collected within the republic. By "addition" is meant a surtax, over and above the general rate. The way the deductions work out is well illustrated in the text following. (Editors.)

A ruling of October 29, 1924, was an important phase in the development of the federal finances. It formulated the rights of the republics and stipulated that the supreme government organs of the Union reserve the right to ratify or even to modify the budgets of the republics, by suggesting to the republics that certain parts of their estimates be reconsidered.

The following were included in the income budget of the Union: all tax receipts, except those which were left at the disposal of the republics by special legislative acts, and additions and deductions<sup>2</sup> left at their disposal; income not derived from taxes, but received from establishments and undertakings belonging to the Union; loans, etc. At the dis-

<sup>2</sup> The system of government described in the text is not so new nor so complicated as the author seems to feel. The control of local finances by the supreme or central government or a sharp demarcation of the powers of the central from those of the local government is essential in any close federation. The Russian Union follows a plan somewhat analogous to that of the German Empire. In fact it began with the hegemony of the Russian Republic somewhat similar to that of Prussia in Germany up to the adoption of the Weimar Constitution and before the transfer of the tax-collecting machinery to the Reich resulting from the reparations plan. The U.S.S.R. next centralized its finances to an extent somewhat greater even than Germany now has. For it appears in the text that the republics exercise much less autonomy than do the German states. This would inevitably result in practice from the dominance of the all-powerful Party seldom mentioned in these articles.

The general plan may be stated simply as follows: (1) The authority for any and all taxes (and purposes of expenditures) emanates by legislation or decrees from the central government. (2) Certain taxes are uniform throughout the country, but old local taxes, deep rooted in the local history, are retained. (3) The republics, the component commonwealths of the Union, are permitted: (a) to retain a large part, even up to practically all, of certain taxes collected within their boundaries (this is what is called the method of "deductions" in the text), and (b) to levy surtaxes or rates over and above the Union tax rates, on certain other taxes which are primarily for the Union. (This is called the method of "additions" in the text. This surtax system is analogous to the county and local taxes levied in addition to the state taxes on the property-tax rolls in the United States.) (4) A number of purely local taxes have been continued, with modification, for the use of the republics or of their local subdivisions. Finally, there are "grants in aid" handed down by the central government and by the republics, for designated government purposes, such as schools. There are, in addition, the grants to industries for the development of "national economy," which are spoken of as non-governmental outlays, since there are few corresponding direct grants of that sort in other countries. (Editors.)

posal of the republics were certain specified taxes, deductions from the federal taxes and supplements or surtaxes to them, non-tax incomes from properties and undertakings belonging to the republics (in particular, forests and underground wealth); subventions from Union funds for covering deficits, etc.

The all-Union expenditure budget came to include appropriations for Union establishments and departments (in particular, defense, transportation and communications service), the cost of loans, the financing of the national economy (measures affecting the whole Union), amounts required for covering the deficits in the budgets of separate republics, etc.

The expenditure budgets of the separate republics came to include the upkeep of their administrative institutions, the financing of their respective portions of the national economy, subventions to local budgets, etc.

Inasmuch as the amount of subventions from the tax resources of the Union to the republics was not exactly fixed, the separate budgets rested on an insecure financial basis; and in addition there was lack of clarity in the interrelations between Union and local budgets, because of the lack of precise information as to the potential resources of the various regions and also constant confusion between the budgets of the republics and those more narrowly local budgets which were still groping to discover their respective limits.

In practice the sources of income left at the disposal of the separate republics were frequently inadequate, especially since out of them large definitely established sums were transferable to meet the requirements of the local budgets of districts, etc. The result was serious deficits in the budgets of various republics. To meet these the law provided a possibility for balancing the budgets of the separate republics by allocating central funds to meet unavoidable deficits.

The administration of the Union budget presupposes a consolidation of all the funds, but with separate bookkeeping as to the receipts and expenditures of the Union and of

each of the allied republics. The order of preference in which credits could be shifted in the course of the execution of a budget was definitely fixed, but considerable latitude was left to the republics, in this regard, within the limits of their own constitutional powers.

The order of procedure in the consideration and ratification of the budgets of the republics is as follows: After the departments' estimates have been worked out in a budget-making conference, the Commissariat of Finance, to which the conference is an auxiliary body, makes an estimate (project) and presents it to the Soviet of People's Commissars for approval and to the Central Executive Committee of the Republic itself for ratification. Then it goes to the Soviet of the People's Commissars of the Union, which, after it has been passed upon by the State Planning Commission, re-examines it and adjusts it into the consolidated state budget project of the U.S.S.R. (As a matter of fact, this is done by the Finance Commissariat.) Finally, when this consolidated state project has been approved, the Sovnarkom<sup>3</sup> (Soviet of People's Commissars) presents it for ratification to the Union's Central Executive Committee (or parliament). In practice, the distribution of tax receipts in 1924-1925 was such that 65 per cent of the total agricultural tax receipts of the Russian and Belorussian republics were left to the budgets of those states, 50 per cent of the Ukrainian agricultural tax to that republic, and 100 per cent to the Transcaucasian federation. Of the receipts from the trade-license and the income tax, the first three republics received 25 per cent each, and the last, 100 per cent. In 1925-1926 the republics received 90 per cent of their respective revenues from agricultural, trade-license (minus the amounts transmitted to local budgets) and income taxes. Besides, they received 65 per cent of the stamp-tax revenues which up to the time of its abolition in 1928 served as an equalization fund out of which the Union budget reinforced those of the republics, thus reducing their deficits.

<sup>3</sup> The highest administrative authority, including all heads of departments—ministers or commissars. (EDITORS.)



In 1925-1926 the Union budget for the first time included, formally, the budgets of the Uzbekian and Turkomanian republics, which had not shaped their constitutions definitely until 1925.

On May 25, 1927, new rulings as to the budget rights of the republics were published, which considerably enlarged their resources. (They received 99 per cent of the direct tax receipts, etc.)

When the members of the Central Executive Committee of a republic disagree with changes proposed by the Union Soviet of People's Commissars, they direct their objections to the Central Executive Committee of the Union.

When the budget of a republic shows no deficit and its financing plan is in agreement with the general economic plan of the Union, the republic becomes legally immune from having its budget modified by Union authorities.

In conclusion of this survey of the budget rights of the republics, an outline may be given of the general scheme as it became established in 1926-1927 and 1927-1928 for the delimitation of sources of revenue and responsibility for expenditures as between the Union and the component republics:

The budgets of the republics receive 99 per cent of the direct taxes collected in their respective territories, except the tax on excess profits and the whole of the tax on inheritances. One per cent of the receipts goes into the Union budget, as a recognition of the Union's right to the basic tax resources and the primacy of the Union in tax matters.

The republics are also entitled to most of the receipts from various fees (court fees, fees for registration of transactions made outside of the exchanges, notarial fees, etc.).

Of receipts from sources other than taxation, the individual republics enjoy the entire income from their forests, underground wealth, lands and agricultural establishments (gross income), and that part of the net income from state undertakings which is connected with the undertakings managed by the republics (part of industry, trade, etc.). The Union keeps the excise revenues, the customs receipts, those from transportation and communications service, a small

share of the direct taxes and duties, and the income from enterprises of country-wide scope or significance, also the income from the credit operations of the Treasury.<sup>4</sup>

The expenditures of the budgets of the republics reflect, in a general way, the constitutional structure of the country's government. According to the constitution, the republics have in their exclusive jurisdiction public education, health service, social insurance, internal affairs, justice and agriculture; they also manage institutions connected with federal departments, but forming at the same time part of the governmental system of the republics, such as the commissariats of industry, trade, labor, finance, workers' and peasants' inspection, and statistical offices. In addition to these, naturally, the republics have their own supreme organs of government, such as Central Executive Committees, Soviets of People's Commissars, and State Planning Commissions. All these activities find a place in the republics' budgets, as do the expenditures for financing economic development measures within the republic, allowances and subventions to local budgets, and a number of special funds such as that for combating unemployment, reserve funds, etc.

The Union budget assumes the care of the federal government departments and institutions, supreme government agencies analogous to those of the individual republics, and institutions connected with them, the commissariats of foreign affairs, war and navy, ways and communications, mails and telegraphs, army health department, etc. The Union budget also bears the expense of the central offices of the unified departments mentioned above. In addition, we find in the Union budget allocations for economic development measures of country-wide importance, a number of funds of special designation, and the cost of state loans, of the formation of reserve funds, of covering deficits in budgets of the republics, etc.

Bearing this general scheme in mind, we may now turn to the actual figures, and, first of all, to those concerning

<sup>4</sup>In principle, the republics can resort to credit operations; but as a matter of fact this source of income is centralized in the hands of the Union.

the interrelation between the Union budget and those of the republics.

## II. REVENUES OF THE REPUBLICS' BUDGETS

The income of the budgets of the republics, chiefly from direct taxes and non-tax receipts, compared with the Union budget has been as shown in the following table:

### DEVELOPMENT OF RECEIPTS ON THE UNION AND THE REPUBLICS' BUDGETS FOR 1924-1925 TO 1927-1928\*

(Million rubles except as indicated)

Source of Income	1924-1925 Budget			1925-1926 Budget		
	Union	Re- publics'	Consoli- dated	Union	Re- publics'	Consoli- dated
Direct taxes .....	227.8	524.9	752.7	45.5	824.3	869.8
Indirect taxes .....	608.8	0.9	609.7	989.9	2.2	992.1
Duties .....	101.9	16.4	118.3	50.0	101.9	151.9
<b>Total tax receipts...</b>	<b>938.5</b>	<b>542.2</b>	<b>1,480.7</b>	<b>1,085.4</b>	<b>928.4</b>	<b>2,013.8</b>
Non-tax receipts exclusive of transportation and communications service	303.8	158.2	462.0	233.8	312.8	546.6
Transportation and com- munications .....	1,040.6	.....	1,040.6	1,481.6	.....	1,481.6
Loans .....	130.5	.....	130.5	146.0	.....	146.0
Balance from executed budget of preceding year	.....	.....	.....	27.6	.....	27.6
<b>Total all receipts.....</b>	<b>2,413.4</b>	<b>700.4</b>	<b>3,113.8</b>	<b>2,974.4</b>	<b>1,241.2</b>	<b>4,215.6</b>
Covering deficits .....	.....	117.5	.....	.....	84.0	.....
<b>Ratio of Union and Re- publics' budgets receipts in consolidated budget</b>	<b>% 77.6</b>	<b>% 22.4</b>	<b>% 100.0</b>	<b>% 70.6</b>	<b>% 29.4</b>	<b>% 100.0</b>

\* Figures for 1924-1925 to 1926-1927 are taken from accounts of budget execution, for 1927-1928, from preliminary materials. Including addition on trade-license tax for local budgets, which, after 1928-1929, is to be carried on the consolidated budget.

The Editors have endeavored in vain to reconcile the data in this table with those of other chapters. Internally it is correct and arithmetical. In justice to the several authors it should be said (1) that some of the differences are due to the reduction of figures to pre-war rubles; (2) that in some cases items not pertinent to the discussion are omitted or some others included; (3) that the elimination of transfers here may reduce the Union data. All responsibility rests on the author. (Editors.)

DEVELOPMENT OF RECEIPTS ON THE UNION AND THE  
REPUBLICS' BUDGETS—*Continued*

(Million rubles except as indicated)

Source of Income	1926-1927 Budget			1927-1928 Budget†		
	Union	Re- publics'	Consoli- dated	Union	Re- publics'	Consoli- dated
Direct taxes .....	20.6	1,243.2	1,263.8	147.0	1,275.0	1,422.0
Indirect taxes .....	1,396.6	2.7	1,399.3	1,726.8	3.2	1,730.0
Duties * .....	18.2	150.7	168.9	52.2	65.8	118.0
<b>Total tax receipts...</b>	<b>1,435.4</b>	<b>1,396.6</b>	<b>2,832.0</b>	<b>1,926.0</b>	<b>1,344.0</b>	<b>3,270.0</b>
Non-tax receipts exclusive of transportation and communications service	345.5	360.9	706.4	374.1	391.4	765.5
Transportation and com- munications .....	1,753.1	.....	1,753.1	1,897.0	.....	1,897.0
Loans .....	319.2	.....	319.2	670.0	.....	670.0
Balance from executed budget of preceding year	15.3	.....	15.3	50.0	.....	50.0
<b>Total all receipts.....</b>	<b>3,868.5</b>	<b>1,757.5</b>	<b>5,626.0</b>	<b>4,917.1</b>	<b>1,735.4</b>	<b>6,652.5</b>
Covering deficits .....	.....	50.2	.....	.....	18.3‡	.....
<b>Ratio of Union and Re- publics' budgets receipts in consolidated budget</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
	68.8	31.2	100.0	73.9	26.1	100.0

Source of Income	Ratios of Separate Incomes to the 1927-1928 Total		
	Union %	Re- publics' %	Consoli- dated %
Direct taxes .....	3.0	73.5	21.4
Indirect taxes .....	35.1	0.2	26.0
Duties .....	1.1	3.8	1.8
<b>Total tax receipts.....</b>	<b>39.2</b>	<b>77.5</b>	<b>49.2</b>
Non-tax receipts exclusive of transportation and communications service.....	7.6	22.5	11.5
Transportation and communications.....	38.6	....	28.5
Loans .....	13.6	....	10.1
Balance from executed budget of preceding year .....	1.0	....	0.7
<b>Total all receipts.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

† Tax on conversion of values, consolidated with the trade-license tax in 1927-1928, has been placed in the group of direct taxes.

‡ This figure is given as per allocation, for materials are still lacking as to the balancing of republics' budgets.

The share of the budgets of the republics in the total budget grew by 1926-1927 from 22.4 per cent to 31.2 per cent; but the very last year, 1927-1928, has shown a certain weakening in this respect, which is connected with the slowing down of the rate of increase in direct tax receipts and with changes in the expenditures of these budgets.

As illustrating the process of setting aside various resources in favor of the republics' budgets, we may refer to the following table, in which the stamp duty (equalization fund) is classed with the Union income:

#### MOVEMENT OF RECEIPTS RESERVED TO BUDGETS OF THE REPUBLICS\*

(Million rubles except as indicated)

	Union Budget	Ratio in Consoli- dated Budget (Percent- age)	Repub- lics' Budgets	Ratio in Consoli- dated Budget (Percent- age)	Consoli- dated Budget
1924-1925 .....	2,412.5	77.5	700.2	22.5	3,112.7
1925-1926 .....	3,060.2	72.5	1,155.4	27.5	4,215.6
Percentage of increase....	26.8	....	65.0	....	35.4
1926-1927 .....	4,001.2	71.1	1,624.9	28.9	5,626.1
Percentage of increase....	30.7	....	40.6	....	33.4
1927-1928 .....	4,952.2	74.4	1,700.3	25.6	6,652.5
Percentage of increase....	23.8	....	4.6	....	18.2

\* The tax on conversion of values, which since 1928-1929 has been made part of the trade-license tax, has here been included in the income of the republics' budgets, for 1927-1928, in the amount of 64.7 million rubles.

The share of the republics' gross budgets in the aggregate receipts of the consolidated gross budget, for the last few years, has fluctuated around 26 to 29 per cent. The result is somewhat different as regards the net budget, as will be seen when we take up the subject of expenditures.

It has already been said that the direct taxes (agricultural, trade-license, and income), as well as non-tax income (chiefly from forests and underground wealth), determine the character and the volume of the republics' budgets; while at the same time they nourish the local district budgets by means of permitted withholdings, in the cases of agri-

cultural tax, trade-license tax, forest income, etc., and of direct subsidies, in the cases of trade-license and income taxes and some duties. It is perfectly natural that such resources should come to be precisely the ones to be assigned to the competence of republics' and local budgets, for they are the ones most closely connected with the particular territories, and assigning them thus assures a degree of regularity in the distribution of receipts, supplementing one another, as they do, and finding support in agriculture and trade and the industrial activity of the respective regions and republics. The natural riches of particular regions thus find their reflection in the budgets.<sup>5</sup>

In the course of the four years we are now considering, the tax receipts, including the stamp duty, increased 147.9 per cent. The increase in direct taxes alone was 142.9 per cent. Non-tax receipts increased by 147.4 per cent. This growth reflects the natural increase in objects of taxation as well as the increased production of mining and timber exploitation and in the collection of duties and tariffs.

With the strengthening of the budgets of the republics, there is a decline in deficits. In 1926-1927 the aggregate deficit was 50.2 million rubles, against 117.5 million in 1924-1925. In 1927-1928, according to the ratified budget, it was to decrease to 18.3 million. However, owing to a shortage in the collection of direct taxes, since the crowding out of private trade by co-operatives is accompanied by a temporary lowering of the fiscal efficiency of the income and trade-license taxes, this deficit is going to be greater. This, however, will not change the fundamental tendency, which is toward increased strengthening of the budgets of the republics. The budget of 1928-1929 confirms this assumption. The decline in the deficits of the republics' budgets, taken on an average all over the Union, is chiefly due to the fact that the budgets of the Russian and the Ukrainian republics are

<sup>5</sup> It may be "perfectly natural" to assign tax resources geographically at first. But it is to be anticipated that in a socialistic state the principle of making the richer districts help out the poorer will operate even more powerfully than it does everywhere in bourgeois countries. Geographical distribution of taxes sows seeds of discord and separation. (EDITORS.)

approaching a balance. In the border republics there are still considerable deficits, and in the Turkomanian Republic the shortage has even increased. Covering these deficits out of Union funds does not, however, always mean a weakness in the resources in these republics; it demonstrates rather the especial attention which the Union government gives to the stimulation of the economic activities of the new national states. The interrelations between the Union budget and those of the republics are not limited to the covering of deficits; there are a number of other factors which must be taken into account for a full understanding of the connection between the two. The structure of expenditures, the trend of development, and the volume in figures differ from one republic to another. Naturally, the Russian Republic has the largest budget, speaking in absolute figures, for it occupies 92.8 per cent of the territory of the Union, and has 67.1 per cent (103,313,000) of the entire population. Next comes the Ukrainian Republic with 29,697,000 population, followed by the Transcaucasian Republic with 6,001,000, the Uzbekian Republic with 5,371,000, the White Russian with 5,101,000, and the Turkomanian with 1,055,000.

The level of economic development, the density of population, the presence or absence of natural resources all determine the efficiency, the composition, and the deficits of any given republic's budget, its burden on the population, and its adequacy to meet existing requirements. The Russian Republic is rich in timber, has large industrial centers, comparatively well-developed industry in several regions, petroleum resources in Grozny (Caucasus), and large agricultural territories of satisfactory productivity. As a result, its budget revenues are sufficiently well balanced in character, all sources of income which the constitution leaves at the disposal of the republics being well represented in them. Still, there is a preponderance of tax income, for the timber tracts are as yet insufficiently exploited and the income from underground wealth is not sufficiently high, in absolute amount, to have a decisive weight in the vast total income. In the Ukraine the timber income plays no great part owing to the scarcity of forests there; income from underground

wealth is not great, for, although there are coal and iron ore, there is no petroleum. Consequently taxes are a still higher relative item in the budget than in the Russian Republic. The agricultural tax in particular has here a vast importance, thanks to the rich agricultural possibilities of the country. The heavy industry of the Ukraine—metallurgical and coal mining—carries a lower trade-license tax than does the light industry of other regions, and this somewhat weakens the effectiveness of that tax. The result is that the agricultural tax yields as much as one-half of all the tax receipts. The situation is different in White Russia. Here, thanks to a considerable income from timber, the non-tax receipts play a dominant part, although there is no income whatever from underground wealth. The Transcaucasian Republic presents a similar case, with the sole difference that the chief income is that from underground wealth, while that from timber is negligible.

In the Central-Asiatic republics, tax income preponderates, as the exploitable timber area is unimportant and the underground wealth is still insufficiently surveyed and is still inaccessible for climatic reasons and lack of roads. The rapid development of cotton cultivation opens to these regions a definite prospect of agricultural tax yields, though for the time being, because of the easy terms granted to the cotton-growing people, this tax does not give large returns and the budgets of the Uzbekian and the Turkomanian republics remain very inadequate. The shortage cannot be made up even though, thanks to the importance of cotton as a commercial crop, the agricultural population here participates in money sales in larger measure than similar classes in the other republics and consequently is in greater degree subject to the trade-license and other taxes connected with commercial transactions.

The extent of the economic enterprises which come under the jurisdiction of the separate republics and which yield a part of their profits (up to 40 per cent) to the budgets of the republics may be illustrated by the following figures, which refer to industries alone: the aggregate production of those industries managed by the separate republics was



estimated, in the production plan for 1927-1928, at 1,510 million rubles; their capital was 954 million, and the profits 74.4 million. The ratio of profits to capital was 7.4 per cent; that is, the capital commanded a rather high rate. The lowest percentage was in the Russian Republic, 4.9 per cent.

### III. EXPENDITURES OF REPUBLICS' BUDGETS

The expenditures of the budgets of the republics compared with those of the Union budget are shown in the table following:

#### DEVELOPMENT OF EXPENDITURES OF THE UNION AND THE REPUBLICS' BUDGETS FOR 1924-1925 TO 1927-1928\*

(Million rubles except as indicated)

Purposes	1924-1925 Budgets			1925-1926 Budgets		
	Union	Re- publics'	Consoli- dated	Union	Re- publics'	Consoli- dated
Government .....	133.9	130.1	264.0	162.0	156.4	318.4
Administrative-economic departments .....	35.8	66.9	102.7	44.7	109.8	154.5
Social-cultural needs†....	35.5	171.9	207.4	50.1	228.8	278.9
Defense .....	450.8	....	450.8	606.2	....	606.2
Transportation and com- munication† .....	1,030.4	....	1,030.4	1,472.5	....	1,472.5
Financing of national economy .....	387.1	22.6	409.7	427.7	135.6	563.3
State debt .....	69.7	....	69.7	117.6	....	117.6
Means transferred to local budgets .....	....	425.6	425.6	....	636.4	636.4
Other expenditures.....	42.5	0.8	43.3	0.2	6.7	6.9
State reserves .....	98.8	....	98.8	45.0	....	45.0
<b>Total expenditures...</b>	<b>2,284.5</b>	<b>817.9</b>	<b>3,102.4</b>	<b>2,926.0</b>	<b>1,273.7</b>	<b>4,199.7</b>
<b>Ratio of Union and re- publics' budgets in the consolidated budget....</b>	<b>73.6</b>	<b>26.4</b>	<b>100.0</b>	<b>69.7</b>	<b>30.3</b>	<b>100.0</b>

\* Without the excess of receipts over expenditures. See also footnote\* to preceding table, p. 398, above.

† Expenses of the Central Office of Education on public carriers are classed with the expenditures for social-cultural needs.

This table checks with the table in chapter five, p. 319, above. (Editors.)

DEVELOPMENT OF EXPENDITURES—*Continued*

(Million rubles except as indicated)

Purposes	1926-1927 Budgets			1927-1928 Budgets		
	Union	Re- publics'	Consoli- dated	Union	Re- publics'	Consoli- dated
Government .....	189.2	161.2	350.4	211.0	153.9	364.9
Administrative-economic departments .....	38.1	133.6	171.7	38.7	159.7	198.4
Social-cultural needs†....	73.6	287.4	361.0	83.3	331.6	414.9
Defense .....	691.5	....	691.5	814.5	....	814.5
Transportation and com- munication† .....	1,906.9	....	1,906.9	2,178.4	....	2,178.4
Financing of national economy .....	633.0	271.0	904.0	1,017.4	287.8	1,305.2
State debt .....	101.0	....	101.0	293.6	....	293.6
Means transferred to local budgets .....	....	916.3	916.3	....	935.2	935.2
Other expenditures.....	11.1	6.5	17.6	15.4	8.4	23.8
State reserves .....	142.4	8.3	150.7	90.3	....	90.3
<b>Total expenditures...</b>	<b>3,786.8</b>	<b>1,784.3</b>	<b>5,571.1</b>	<b>4,742.6</b>	<b>1,876.6</b>	<b>6,619.2</b>
<b>Ratio of Union and re- publics' budgets in the consolidated budget....</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
	68.0	32.0	100.0	71.6	28.4	100.0

Purposes	Ratios of Separate Incomes to the 1927-1928 Total		
	Union %	Re- publics' %	Consoli- dated %
Government .....	4.4	8.2	5.5
Administrative-economic departments.....	0.8	8.5	3.0
Social-cultural needs†.....	1.8	17.7	6.3
Defense .....	17.2	...	12.3
Transportation and communication†.....	45.9	...	32.9
Financing of national economy.....	21.5	15.4	19.7
State debt .....	6.2	...	4.4
Means transferred to local budgets.....	...	49.8	14.1
Other expenditures .....	0.3	0.4	0.4
State reserves .....	1.9	...	1.4
<b>Total expenditures .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

† Expenses of the Central Office of Education on public carriers are classed with the expenditures for social-cultural needs.

While, in the Union budget, the bulk of expenditure is due to transportation, communications service, the financing of national economy, and defense, in the republics' budgets the most important expenditure items are, in the order named:

aid to local budgets, appropriations for social-cultural needs, financing of public economy, administration of economic commissariats, and, finally, government administration.

In the republics' budgets, government expenditures proper occupy proportionately a larger place than in the budget of the Union, as is natural when we recall that the upkeep of the financial apparatus is largely incumbent upon the separate republics, as well as that of domestic judicial institutions, including houses of correction, and that of the government machinery of the six federated republics and the many autonomous commonwealths. The republics' budgets are even heavier, not only relatively, but absolutely, with regard to their expenditures on economic departments and social-cultural activities. Among the economic departments, that of agriculture plays the most important part, administering, as it does, the forests, maintaining experimental stations for agronomy and animal husbandry, organizing landholding, introducing special measures for the betterment of agriculture, and managing the agronomy and animal husbandry services which are supported by local budgets. Though the commissariats of agriculture are institutions solely of the individual republics, and there is no Union commissariat of agriculture (the co-ordination of activities in this field being the task of the State Planning Commission of the Union), the administration of the commissariats of trade and industry is focused in the central government, and their expenditures appear in the Union budget as well as in those of the separate republics.

Social-cultural needs are cared for mostly by institutions belonging to the republics (education, health preservation, social insurance). The Union looks after academic institutions and takes care of homeless children, of the Union center of labor commissariats, of the health-preservation work in the army, and of public education on public carriers.

The budgets of the republics carry, in connection with public education, the higher schools, the secondary professional schools, and the experimental institutions which serve those smaller ones which are supported from local budgets. There is a similar situation in the health service:

the republics' budgets support the work of learned institutions, of psychiatric hospitals, of Pasteur and malarial stations, of anti-epidemic and general sanitary measures, etc.

Social insurance appears in the budgets of the republics in the quite considerable appropriations for the support of local budget payments on account of pensions and some amounts for personally assigned pensions, etc.

National defense is entirely supported by the Union budget, as well as transportation, communications service, and state debt expenses.

The financing of national economy is carried by both the Union and the republics' budgets. In the Union budget, appropriations for industry and electrification predominate; in those of the republics, expenditures for agriculture. The reason for such a division is the greater importance of those industries which lie within the domain of Union administration and the intensive program of construction of large district electric stations, the expense of which rests on the Union budget. Appropriations for agriculture, on the other hand, are largely effected through the credit institutions, and the burden tends to rest on such institutions of the separate republics as commissariats of agriculture and agricultural banks.

The financing of co-operation falls on the budgets of the republics. In the most recent years, in connection with a considerable strengthening of the co-operative system, these allocations have, to a large extent, the character of a revolving fund, some receipts coming in the shape of returned loans.

The financing of trade is divided between the two sets of budgets, depending on the nature of the measures adopted, and the relative burden on the two varies from year to year.

Both the Union and the republics take part in building up the state's reserve fund; but the latter's share is not large.

In the budgets of the republics, the last few years show a decrease in government expenses proper, thanks to the régime of economy of which we spoke in the preceding chapter. On the other hand, there has been a large increase in expenditures for agricultural and social-cultural purposes; the sums transferred to local budgets have more than doubled in four years. The increase of expenditures as a

whole was 129.4 per cent as against 107.6 per cent on the Union budget. The corresponding figures on the income side are, it should be remembered, 147.7 per cent and 103.7 per cent. The reduction of the deficits has resulted in a certain slackening of expenditures as compared with receipts.

#### IV. UNION AND REPUBLICS' BUDGETS

In 1927-1928 there was a slower development in the budgets of the republics than in that of the Union. This, however, does not indicate any weakening of their budgets in the sense of any inadequacy in satisfying existing requirements. The explanation is that in 1927-1928 the republics achieved a considerable "intra-budget accumulation," having curtailed their administrative expenditures and taken care of the proper growth of productive expenditures with only a moderate increase in the budget. The transfer of certain of the republics' enterprises to the management of the Union government, which undertook their financing, also played a part in this improvement. Thus the slower development of the budgets of the republics was of an entirely formal nature. The budget project for 1928-1929 indicates that they will again increase at a rate considerably more rapid than the Union budget is increasing, chiefly in connection with the expansion of expenditures on education and the financing of agriculture.

Turning now to the net budget—using the method employed in the preceding section—we get the following table:

MOVEMENT OF THE NET BUDGET					Percent- age of Increase in Three Years
	1924-1925	1925-1926	1926-1927	1927-1928	
Union budget, mil- lion rubles....	1,286	1,523	2,195	2,871	123.2
Relative weight..	79.3%	72.9%	73.3%	76.6%	.....
Republics' budget, million rubles..	335	565	797	875	161.2
Relative weight..	20.7%	27.1%	26.7%	23.4%	.....
Consolidated bud- get, million rubles .....	1,621	2,088	2,992	3,746	131.1

The relative importance of the republics' budgets is higher in 1927-1928 than in 1924-1925, though there has been a decline since 1925-1926. This is due in part to the increased financing of the local budgets.

The following table gives a clear picture of the extent to which the people's requirements are satisfied:

# REPUBLICS' BUDGET EXPENDITURES PER CAPITA IN 1927-1928

(Rubles)

Purpose	Russia	Ukraine	White Russia	Trans- caucasia	Uzbekia	Turko- mania	Average for All
Government ..	0.96	0.83	1.06	2.23	1.60	2.45	1.02
Economic administrative departments	1.08	0.88	1.57	1.13	1.04	1.46	1.06
Social-cultural needs .....	2.16	1.92	2.57	3.59	2.48	3.84	2.20
Financing national economy* .....	1.65	1.62	2.37	4.95	3.39	8.90	1.91
Transferred to local budgets	5.87	5.56	5.57	6.70	5.77	5.58	5.83†
Other expenditures .....	0.04	....	....	0.53	0.20	....	0.06
<b>Total expenditures .....</b>	<b>11.76</b>	<b>10.81</b>	<b>13.14</b>	<b>19.13</b>	<b>14.48</b>	<b>22.23</b>	<b>12.08</b>

\*Distributable in part as follows:

All industry .....	0.88	0.74	1.08	2.80	0.97	4.32	0.97
All agriculture .....	0.48	0.50	0.71	1.08	1.83	2.09	0.57
All trade and co-operative trade .....	0.19	0.28	0.24	0.40	0.39	1.00	0.23
<b>Total .....</b>	<b>1.55</b>	<b>1.52</b>	<b>2.03</b>	<b>4.28</b>	<b>3.19</b>	<b>7.41</b>	<b>1.77</b>

† Owing to the condition of the preliminary accounting materials which we have used for the year 1927-28, there is a certain discrepancy in figures between the column of transfers to local budgets and other tables above.

We see that, in all the fundamental items, the most powerful republics—the Russian and the Ukrainian—fall behind the border republics. In this fact lies the explanation of the latters' deficient budgets. The Union assumes the care of quickening the cultural and economic progress of the backward national states.

The somewhat lower figures of the Ukranian Republic as compared with the Russian are due to the greater density of the former's population (64.2 per square kilometer as against 5.1 in Russia),<sup>6</sup> which lessens the expenses of government, education, etc.

Besides, it must be borne in mind that the budget of the Russian Republic actually supplies many requirements of Union-wide importance, in connection with higher education, learned institutions, etc.

#### V. MUTUAL ACCOUNTS OF THE UNION AND THE REPUBLICS

The accounts between the budgets of the republics and that of the Union and the consolidated budget are concerned with two things: on the one hand, with covering deficits and making deductions from stamp-duty receipts for the account of the republics; on the other hand, with the excess of receipts over expenditures in the budgets of the latter and the participation of the republics in the accumulation of the state reserve fund. The first two items appear in the form of receipts in the budgets of the republics above their income proper; while the two latter items, on the contrary, appear as a transfer of funds from the republics to the Union or, in more general terms, they show the amounts of which the republics deprived themselves in favor of the Union budget. The accounts are shown in tabular form on page 412.

These figures justify the assertion that in 1927-1928 there was an appreciable lessening of the deficit balance in the budgets of the republics, resting on a slowing down of the increase in expenditures and a strengthening of the revenue, and that throughout the four-year period under consideration that deficit balance has been declining. These facts indicate that a process of consolidation in the budgets is going on, a point of much importance if these budgets are to acquire a stable position in the financial system of the country, for a budget which is not so constructed as to

<sup>6</sup> The republic of Russia includes a large part of what we know as Siberia with a sparse population. (Errors.)

## MUTUAL ACCOUNTS OF REPUBLICS' AND UNION BUDGETS

*(Million rubles)*

	1924-1925	1925-1926	1926-1927	1927-1928*
Stamp duty and tax on conversion of values.....	0.2	85.8	132.6	102.6
Covering deficits .....	117.5	84.0	50.2	18.3
<b>Total obtained by republics.</b>	<b>117.7</b>	<b>169.8</b>	<b>182.8</b>	<b>120.9</b>
Excess of receipts.....	.....	51.5	23.5	....
State reserve fund.....	.....	....	8.3	25.1
<b>Total received from republics .....</b>	<b>.....</b>	<b>51.5</b>	<b>31.8</b>	<b>25.1</b>
<b>Balance in favor of republics</b>	<b>117.7</b>	<b>118.3</b>	<b>151.0</b>	<b>95.8</b>

\* Figures for 1927-1928 are taken as per allocation, since the accounts of budget execution are not yet completed. The final accounts of execution must show a greater deficit, since there has been a shortage in collecting those direct taxes of which the receipts have been allocated to the republics. This fact, however, will not change the general trend.

balance itself cannot be perfect. The next problem in this field is so to strengthen these budgets as to make them into a stable and internally harmonious financial structure.

The budgets of the republics, standing between the Union budget and local budgets, fill very essential functions in the social-cultural, the economic, and other sides of life. They regulate the activity of local budgets with more ease than this could be done by the Union budget, for the reason that through this decentralization there are brought to light more intimate knowledge and better adjustment to the economic and social peculiarities of the regions concerned.

For a territory as vast and varied as that occupied by the U.S.S.R. the existence of the budgets of the republics—this intermediary phase between the budget of the Union and the smaller local ones—appears rational not only from a constitutional-political point of view but also as a method of administration. The existence of a consolidated budget and subordination to the general economic plan provides for the indispensable co-ordination of effort and means.



## CHAPTER NINE

### DEVELOPMENT OF LOCAL BUDGETS IN THE U.S.S.R.

*By A. M. Gordin*

#### I. GENERAL SURVEY OF THE DEVELOPMENT OF LOCAL BUDGETS

In October 1917 the Revolution, having created an entirely new scheme of state rule, abolished at the same time the pre-revolutionary system of local government, municipal as well as *zemstvo* (rural). There were substituted local soviets of workers', peasants', and soldiers' deputies, which, besides being local government organizations, represented the central government as well. There is no sharp delimitation between local and central government; the town and rural soviets and conferences of soviets—*gubernia*, *uezd*, and *volost* conferences in those parts of the country not yet divided into districts called *rayony*; and regional, circuit, and *rayon*<sup>1</sup> conferences in those parts newly divided into *rayony*—and their elected executive committees care for local needs, but at the same time, through proper channels, fulfill their functions as organs of state rule. Separate spheres of administration, of cultural or economic life, come within the jurisdiction of the respective sections of the executive committees, or of the soviets, directly; but, vertically, those sections are subordinate to departments of the central government. However, the activities of local soviets, in so far as they concern purely and specifically local requirements, are separate and independent, and find their expression in local budgets.

In the first years of the Revolution, the previous limits of operation of the local budgets became obliterated. It was

<sup>1</sup> These translations are arbitrary. (TRANSLATOR.)

difficult to establish their existence as separate from the state budget, and a decree of June 18, 1920, even provided for a legal fusion of the two. However, the transition from war-time problems, which required strict centralization of power, to the period of economic and cultural reconstruction made decentralization an urgent necessity. Development of local economy and local budgets became an important factor; and there soon began a rapid reconstruction of local finances, as a system which appeared to be the most rational method of administering the resources and expenditures of the state at their sources.

Through the decrees of August 21, October 10, and December 10, 1921, the separation of the local budget as such was effected, definite sources of revenue were fixed, and a list of local expenditures was made up; and from January 1, 1922, on, the local budgets must be considered as having come back to life again. The principle of "covering local expenditures from local resources" was proclaimed as the basis of the local budget construction. However, the instability of both receipts and expenditures and the sudden shifts in the whole economic system of the country prevented the realization of this principle during the first period of the revival of local finances, though the tendency itself had a considerable sanitive effect. A special loan fund was established in the hands of the Commissariat of Finance for the purpose of covering local deficits.

Local budgets were to provide for the upkeep of the village soviets and the volost government offices, except as to wages, for the office and economic expenses of the institutions for public education, and the wages of school help (except teachers), the wages of help at hospitals, and the transportation of patients. Thus the tasks of the local budgets, administrative as well as social-cultural, were at that time very limited; even the wages of the teaching and the medical personnel remained on the state budget. Somewhat wider possibilities were left to the local budgets in the domain of communal economy and of provision for the needs of agriculture.

In the course of that same year, 1922, it became clear that

the scope of local budgets ought to be widened, as to both receipts and expenditures. This was provided by the decrees of May 25, 29, August 31, and November 16, which made it incumbent on the local budgets to care for the billeting of troops and to care for certain institutions, for the upkeep of houses of correction and tribunals, for the medical personnel of hospitals, etc. A decree of August 17 regulated the mutual relations of state and local budgets, establishing a definite method for transferring expenditures to the local budget, which brought more precision into the delimitation of the respective functions of the state and local budgets.

Still, it was not until the publication of the *Temporary Regulations*, ratified on November 12, 1923, that the system of local finances was made entirely clear. These regulations also called to life, all over the country, the volost budgets, and defined the property rights of local soviets. In the process of further perfecting the system of local finance and its distinction from state finance, the following expenditures were to be carried by the local budgets: (1) arranging conferences of local soviets; (2) upkeep of the local executive committees; (3) upkeep of the gubernia departments of public education, health preservation, social insurance, local economy and administration; (4) the whole care of common school education; (5) upkeep of the militia; (6) social insurance, etc.

The receipts, too, became somewhat uniform for the country; a number of petty taxes were abolished, while some others were merged; new sources were established; the time of tax collection and the process of granting easy terms were regulated; etc. The law of October 29, 1924, which took the place of the ruling of 1923, added to these changes a new method for financing local budgets out of state funds; and the system of grants of taxes was replaced by one of subventions, of which the disposition was dictated by the state. This assured to the latter a measure of control over local expenditures and lessened the demands of the local budgets upon the State Treasury.

The "Ruling" ratified on April 25, 1926, brought considerable improvement in the system of local finances, giving a new development of the principle of decentralization.

One outstanding characteristic of the new ruling was that it gave the republics considerable latitude in regulating local budgets; only general tendencies were to be controlled and certain limitations to be set up by the Union administration. In particular, the republics were to regulate the matter of subsidizing local budgets; to delimit individual local budgets (those of towns, or cities, and of volosts being recognized as basic units); and to establish what were known as "regulating" funds (before this time, only the gubernias had had reserve funds). This latter measure lent powerful aid to the republics in managing local budgets and in furthering the progress of more backward districts. The regulating funds were to be formed by special allotments from state income and taxes, excluding, however, any allotments from the agricultural tax receipts, which were assigned to the local budgets, and from any income from the profits of the state insurance organs, these being allocated for certain special uses.

The ruling of 1926 completed, in its fundamentals, the process of delimitation of expenditures and receipts between local budgets and the state.

## II. EXISTING SYSTEM OF LOCAL FINANCES

Following this short survey of the evolution of local budgets, we may now turn to their structure, not historically but systematically, and describe the fundamental rules as to the compass of local budgets.

The ruling of 1926 defined the expenditures of local budgets as follows: (a) the upkeep of the local soviet organs; (b) communal economy; (c) popular education; (d) health preservation; (e) social insurance; (f) agriculture; (g) local transportation and road building; (h) industry and trade of local import; (i) combating unemployment; (j) supplying the needs of the defense of the U.S.S.R.; (k) other measures projected by the government of the respective republics.

The expenditures of the local soviet organs comprise the upkeep of the soviets and their executive committees, of all the organs of the district and the volost executive commit-

tees, and of the following organs of the circuit, uezd, and gubernia executive committees: (1) administrative branches (except the local organs of the State Political Office [the G.P.U.]); (2) land offices; (3) popular education; (4) health preservation; (5) social insurance; (6) communal and local economy. Furthermore, the local budgets assume the upkeep of the people's tribunals, the local attorneys, the uezd and subordinate land commissions, the militia, the detection of crime, houses of correction of uyezds and smaller political units, etc.

In respect to the communal economy the local budget assures the upkeep of communal properties and enterprises if the latter are not organized on a commercial basis; the improvements of populated settlements; the building enterprises of the community; and fire prevention.

In respect to public education the local budget supports the lower professional and technical schools of all descriptions, the primary and secondary general public schools, the enterprises for the care of small children: kindergartens, playgrounds, nurseries; libraries, clubs, people's homes, schools for illiterate adults, museums, expositions, local theaters, etc. Institutions having an experimental-educational value, although they might be classed with one of the named types, and institutions of nation-wide importance are carried on the national budget.

In respect to health preservation the local budgets care for: (1) the upkeep and establishment of hospitals, sanitariums, etc., except certain special ones and those having nation-wide importance, or at least serving several gubernias. The latter are carried on the state budget and include dispensaries for tubercular and venereal patients, psychopathic hospitals, lepers' colonies, factories for artificial limbs, and hospitals serving the army, transport, prisons, and courts; (2) the upkeep of health resorts; (3) protection of maternity and child health; (4) sanitary measures; (5) transportation of patients; (6) prevention and combating of contagious and social diseases.

Social insurance as cared for by the local budgets, concerns mostly homes for invalids, the combating of begging

and prostitution, the support of organizations for mutual help in city and village, and, finally, the pensioning of war invalids and their families as well as the families of soldiers killed in the war. The expenditures on the last item are reimbursed to the local budget by the state to the extent of 25 per cent.

Rural economy expenditures of the local budgets are for: the upkeep of experimental stations, except those expressly carried on the state budget; improvement works of local importance; agronomy and animal husbandry bureaus; the construction of all kinds of repair shops and experimental stations; combating agricultural pests locally; upkeep of veterinary institutions of local importance (combating such diseases as cattle plague, anthrax, and others that cannot be segregated in given localities is assumed by the state budget); agricultural education propaganda; exploiting local resources.

Expenditures for local transportation and road building include the building of local roads and their upkeep, as well as that of landings, ferries, team service, etc.

Local industry and trade find support in the local budgets only in so far as they may require funds for getting started. Since, however, most local economic undertakings are run on a commercial basis, the weight of this item in the budget is not great, and in any case does not furnish a measure of the actual importance of industrial and trade activities which lie within the domain of the local governments. Those undertakings not commercially organized are supported by the local budgets by advances offset in part by payments from profits and by rental payments made by the undertakings to the government.

Relief of unemployment takes place through the organization of public works, labor communes, food distribution, and communes of unemployed, etc.

The part played by local budgets in supplying of the needs of national defense is not great, being limited chiefly to the finding, the repair of, and the service in, billeting quarters for the army units. Service is paid for by the state at a fixed scale of rates, and in those localities where con-

siderable numbers of troops are concentrated the local soviets receive special subventions from the State Treasury.

The foregoing, together with the chapter on the budgets of the republics, makes it possible to see clearly the line of demarcation between state and local budgets and the vast and multifarious character of the functions of the local budgets. Naturally, the carrying out of all the duties assigned the local budgets has necessitated a considerable strengthening of their resources. We may next turn to this point.

In the first place, by the reform of 1926, the local budgets were assigned the receipts from all kinds of communal and other local enterprises and properties.

The budgets may include either a gross income figure, or a rental payment, or the net income, or a portion of it. This applies also to city and other lands, underground wealth, forests, and fisheries which have been placed at the disposition of the local soviets. Besides, the local budget receives rent from city lands. Any receipts for the indirect use of forests<sup>2</sup> go entirely to the local soviets. The latter are also entitled to the full income from any of those establishments or enterprises which they finance.

By way of deductions (i.e., allocated shares of general taxes), the local budget is entitled to 50 per cent of the state trade-license tax receipts. The total, which is due from the state to the local soviets on this item, is pooled and then distributed by the Union government in order to equalize according to needs. Deductions (allocations) from the agricultural tax in favor of local budgets amount to 66⅔ per cent of all receipts from the respective territory, of which 40 per cent is permanently allocated to the volost or district budget, 16⅔ per cent is put at the disposal of the higher local government organs, and 10 per cent is redistributed by the government of the republic in accordance with the economic and financial conditions in the various localities.

Furthermore, the local budget receives deductions (allo-

<sup>2</sup> Most probably here is understood the gathering of dry brushwood, grass, mushrooms, or nuts; in some localities pine cones are gathered for fuel and paid for. (TRANSLATOR.)

cations) from the inheritance tax (50 per cent), forest income (40 per cent), revenue from landed properties of nation-wide importance (50 per cent), revenue from the exploitation of peat deposits (50 per cent), from fisheries and hunting grounds (50 per cent), from the profits of state insurance organizations, from court receipts on cases tried in judicial institutions carried on the local budget (100 per cent), from the state registration duty on transactions concluded outside of the exchange (66⅔ per cent), etc. Such extensive use of this method of supplying local budget funds through deductions (allocations) from taxes is due to the necessity of centralizing the control of taxation, but it also serves to create a close connection between the development of the state and the local budgets. Inasmuch, however, as the percentage to be allocated in favor of local budgets from each particular tax is permanently fixed, the allocations cannot be considered as purely a subsidy or a donation; they should rather be classed as part of the local budget's own resources.

As to additions to taxes (surtaxes) the local soviets have been granted the right of making additions to the trade-license tax,<sup>3</sup> which in most cases reach 100 per cent; to the income tax, up to 25 per cent and in some cases up to 50 per cent; to the hunting license up to 50 per cent; to the court fees up to 100 per cent; to notarial fees up to 100 per cent and in some cases up to 200 per cent.

The peculiarity of additions (surtaxes), as compared to deductions, is the possibility of changing the rates of taxation within permitted maximum limits, and the fact that additions, much more than deductions, are an integral part of the given local budget. Additions (surtaxes) may be used as the elastic element in regulating funds and are therefore more convenient for the use of the stronger city budgets.

Local taxes and duties have been regulated by the central legislation of the Union with regard to only four taxes; those on buildings, on transported freight, on exchange transac-

<sup>3</sup> Since 1928-1929 this addition has been consolidated with the body of the tax and balanced by an increased deduction (allocation) from it.



tions, and on gold mining. All other local taxes are levied by the local soviets with the permission of the governments of the respective republics and may not be imposed on the objects of Union taxation.

The most important of these taxes may be thus designated:

The tax on buildings includes most buildings within the city; and of those outside city limits, only such buildings as are used for industrial and trade purposes and summer cottages for rent. Buildings occupied by military troops, by government establishments, and some others, are exempt. The tax is not to exceed  $\frac{1}{4}$  of 1 per cent of the cost of the building.

The tax on transported freight (per-ton tax) is levied on incoming and outgoing freight on railways and waterways, loaded and unloaded at railway stations, landings and ports within city or town limits or the limits of industrial and trade districts, or such stations or ports as are understood to serve the respective cities or industrial and trade undertakings. Transit freight, re-loaded freight at points of re-loading, a part of export freight, army freight, and some others, are exempt from this tax. Receipts from the per-ton freight tax go to form road funds which are to become an important foundation for building roads, a movement which is developing into a wide campaign in the U.S.S.R.

The tax on exchange transactions is levied to the extent of a maximum of 0.1 per cent on transactions made on the produce exchange, and a maximum of 0.05 per cent on transactions on the money exchange. Transactions involving state securities are exempt.

A special dwelling tax is levied for the purpose of the construction of workers' dwellings, and bears on those tenants possessing unearned income.

### III. PROGRESS OF LOCAL BUDGETS

With the general improvement of popular economy, due to the steady increase in the volume of expenditures carried by local budgets as a result of decentralization of economy

and administration, with an increase of revenue due to a more complete economic rounding out of the local budgets, and with the increasing assistance furnished by the state budget, the local budgets have lately shown a rate of growth which exceeds that of the Union state budget.

### EXPENDITURES OF LOCAL AND STATE (UNION) BUDGETS\*

	(Million rubles)				
	1923-24	1924-25	1925-26	1926-27	1927-28
Local budgets, gross.....	621	969	1,363	1,804	2,040
Local budgets, net†.....	522	845	1,168	1,582	1,786
Union budget, gross.....	2,267	2,918	3,932	5,179	6,034
Union budget, net‡.....	1,277	1,637	2,071	2,991	3,688
<hr/>					
Consolidated budget, gross .....	2,759	3,619	4,882	6,415	7,492
Consolidated budget, net .....	1,799	2,482	3,239	4,573	5,474

\* Data for 1923-1924 to 1926-1927 are given as per accounts of execution, data for 1927-1928, as per preliminary grants. Except where the contrary is stated, the data are good in relation to all the subsequent statements. The state budget is here given exclusive of the addition to the trade-license tax. A discrepancy in figures between this table and the foregoing chapters—rather important for a gross state budget—is due to the different volume of the trade-license tax; in the present case the state budget does not include the addition, on which see pp. 319 ff., above, chapter on budget expenditures; the discrepancy is also due to some details of method as applied to net budget.

† Under "net budget" we understand a "gross" budget exclusive of the turn-over accounts of communal undertakings and the restricted subventions coming from special funds and capitals. As far as communal undertakings are concerned, we are often forced to use the saldo alone for the simple reason that otherwise data would not be comparable, since the methods of including the given item in the budgets of different territories may have been different.

‡ Inasmuch as the amounts transferred from the state budget to the local ones are doubled if simply added according to the "gross" method, we have disregarded them in summing up (in the state budget), and, consequently, the sum total of the combined budget does not represent an arithmetical total of the local and the state budget.

The Editors have omitted four columns of percentages of growth for reasons stated in footnote 5 to chapter one, pp. 6-7, above. (EDITORS.)

The first years of the extensive reconstruction period show extremely rapid rates of growth of local budgets; at the same time the net state budget grew at a slower rate than the gross budget, in part because it surrendered a portion of its additional resources to the local budgets.

The last year, 1927-1928, brought to view a transition

which had been noticeable even in 1926–1927, that is, that the growth of the local budgets became slower than that of the state budget. This was caused by a slowing up in the development of the direct taxes which feed the local budgets, with the simultaneous forcing of national loans, and also by intensified investments in national economy taken from state sources of revenue. A factor in this situation was also the existence within the local budgets of a reserve fund caused by decreased administrative expenditures.

As a result, the share of the local budget in the combined (net) budget changes as follows:

1923–1924 .....	29	per cent
1924–1925 .....	34	per cent
1925–1926 .....	36	per cent
1926–1927 .....	34.5	per cent
1927–1928 .....	32.5	per cent

Thus the local budgets play a very important part in the financial system of the Union, but in the “gross” budget with its overlapping items eliminated, the position of the local budgets is somewhat weaker, being 25.3 per cent in 1927–1928. In recent years, however, the importance has been decreasing somewhat.

#### IV. REVENUES OF LOCAL BUDGETS

The composition of the local income budgets and their trend since 1923–1924 are as shown in the table on the following page.

At present (1927–1928) taxes yield 44.4 per cent of the local budgets, the most important contribution being additions (surtaxes) to state taxes (19.7 per cent) and deductions (allocations) from them (16.8 per cent). Local taxes form only 5.5 per cent of the local budgets and their increase is slower than that of the other resources. The secondary importance of local taxes is due, first of all, to the existing tendency toward centralization and uniformity of taxation—a tendency not confined to the U.S.S.R.—which has caused the center of gravity of the financial policy, including the domain of local finance, to be shifted to state

## RECEIPTS OF LOCAL BUDGETS (GROSS)

Source	Thousand rubles					Percentage Growth, Percent- age of 1927-1928 over	
	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928	1923-1924	Total
Local taxes and duties.....	69,759	73,072	91,012	106,257	113,563	62.8	5.5
Additions to state taxes (surtaxes)	135,905	179,258	271,513	360,287	403,774	197.1	19.7
Deductions from state taxes (allo- cations) .....	87,478	142,077	158,108	332,840	343,143	292.3	16.8
Arrears .....	3,982	33,977	43,544	55,193	48,395	1,115.3	2.4
Total income from taxes.....	297,124	428,384	564,177	854,577	908,875	205.9	44.4
Communal properties .....	107,689	144,981	191,400	221,661	246,987	129.3	12.1
Communal undertakings .....	110,846	156,589	204,848	226,140	271,903	145.3	13.2
Income from trade and industry...	9,632	29,691	53,106	84,377	98,801	925.7	4.8
Income from agriculture.....	10,283	15,952	17,434	20,665	24,684	140.0	1.2
Deductions from state income (al- locations) .....	24,728	43,503	83,670	99,596	112,592	355.4	5.5
Arrears .....	6,518	22,664	36,756	52,868	54,615	737.9	2.7
Total non-tax income.....	269,696	413,380	587,214	705,307	809,582	200.2	39.5
Debts and loans .....	.....	21,658	41,330	81,014	39,765	.....	1.9
Reimbursements from state funds..	.....	.....	.....	8,253	17,620	.....	0.9
Subventions from state funds.....	26,595	64,126	123,166	78,229	99,483	274.1	4.9
Purposive subventions from special funds and capitals.....	.....	.....	25,818	17,900	20,625	.....	1.0
Balance of budget funds.....	10,344	20,353	38,052	61,397	72,414	600.0	3.5
Other income .....	43,652	59,944	54,794	82,554	79,501	82.1	3.9
Total income, all sources.....	647,411	1,007,845	1,434,551	1,889,231	2,047,865	216.3	100.0

taxation. Besides, many local resources have been hampered in their development by the housing policy of the Soviet government, which endeavors to furnish its employees and workers with cheap dwellings and consequently weakens the fiscal effectiveness of the tax on buildings.

The extensive municipalization of buildings, lands, and enterprises has had a similar effect, having transformed possible objects of taxation into sources of non-tax income.

Among non-tax incomes, that from communal enterprises and properties occupies the largest place.

The possibilities presented by this class of income and the problems involved are indicated by the following figures: the fund for communal economy at the beginning of 1927-1928 was estimated at 2.4 billion rubles, and the municipalized dwelling fund at 7.5 billion.<sup>4</sup> The gross amounts of these capital funds appear only in part, in the local budgets; but it is evident that the economic foundation of the communal income of the local budgets is quite considerable.

It is only natural that the budget income from such considerable properties occupies a conspicuous place in the local budgets. In 1927-1928 it was 518.9 million rubles, or 25.3 per cent of the aggregate local budgets (12.1 per cent from communal properties and 13.2 per cent from communal undertakings).

The growth of receipts from these two sources, considerable as it is (129 per cent and 145 per cent, respectively, in five years), is, however, slower than the increase of taxation. But this must not be regarded as an organic weakness of the system, since it has been caused by the "legislative" growth of taxes, while the development of communal income has taken place as a natural process, except for certain shifts of organization which took place with regard to communal enterprises, such as transferring them from a preliminary estimate basis to a commercial basis and vice versa. To some extent, the slowing down of the growth of income from communal properties is due to co-operative trade which has

<sup>4</sup> Data taken from *Planning Problems of Local Economy and Budget*, Planovoe Khoziaistvo, Moskva, 1928.

been replacing private trade. Co-operative business is more centralized and therefore does not occupy all of the trading quarters vacated by the elimination of private business, rental receipts from which formed a most important constituent of the local income. In 1926-1927, 167.4 million rubles was received as rent from various quarters occupied by private trading and industrial business. The easy terms granted to co-operative business also have an influence.

Income from communal undertakings consists mostly of receipts from public street cars, which, with the receipts from auto-buses, amounted in 1926-1927 to 102 million rubles, that from city water systems, to 27.1 million rubles, that from electric power stations, 26.7 million rubles, and so forth.<sup>5</sup> The economic weakness of the communes which existed in pre-revolutionary Russia is still felt in Soviet Russia, but the rapid increase of urban population (27.4 per cent from 1923 to 1928, as against 9.5 per cent for the rural population), the considerable sums invested in communal economy, and improved administration have brought a material increase in the returns from communal properties, in spite of comparatively low rates charged, and have opened a promising prospect in this field. Still, although the total receipts from communal undertakings are higher than from properties, the latter, for the time being, bring a greater net profit to the budget, being less dependent on business activities.

The income from industry consists principally of shares in the profits of the local state industries (which are run on a self-supporting basis and are not carried on the budget), and from rent payments on leases of comparatively small enterprises. The small industries which belong in the local budget do not often differ in size from those of the republics and even those of the state, and these enterprises play a very important part in the industry of the U.S.S.R.

The separation of local industry from that of the republics or the state is based on administrative convenience and the use of local initiative.

<sup>5</sup> Large regional electric power stations usually do not come within local economic systems and are managed separately.

## MOVEMENT OF GROSS OUTPUT OF STATE INDUSTRY\*

(Million rubles)

Division	1925-1926	1926-1927	1927-1928
Union industry .....	4,287	4,969	5,944
Republics' industry .....	805	975	1,178
Local industry .....	2,096	2,643	3,632
Total .....	7,188	8,587	10,754

\* According to materials of the industrial plan for 1927-1928.

Local industry has been the most rapid in development, and in 1927-1928 yielded one-third of the output of the entire state industry. The invested capital of local industry in 1926-1927 was estimated at 1.1 billion rubles, and the profits at 144.5 million. According to the balance sheets on October 1, 1925 and 1926, the profits of local industry, in percentage of the invested capital, are 9 per cent and 12 per cent for the Russian Republic, and 14 per cent and 19.5 per cent for the Ukraine, while the average profit on the whole of state industry, calculated by the same method for these two years, was 9.5 per cent.

The rapid growth of local industry in the last few years, with increased earning of the enterprises, due to their working at full capacity, the rationalization of production methods, and the increased use of the redistributing function of the budget, have increased the net profits of industry in the last four years by 926 per cent.

Income from agriculture comes from the lateral (indirect) use of forests, the land properties of the local soviets, the fisheries, and the agricultural undertakings. The negligible part played by this revenue in the budget is due to the fact that the basic revenue items from agriculture are concentrated in the state budget or those of the republics and that potential possibilities are insufficiently exploited. Deductions (allocations or shares) from state receipts of this class show an appreciable tendency to increase, conditioned chiefly on the development of profits from forests and the possibility of increased appropriations from them.

Income from public and other loans does not play anything like the same part in the local budget as it did be-

fore the Revolution and as it does still in other countries. This is partly because there is no spare capital available but also because of the centralization policy with regard to bonded loans. Local budgets must limit themselves to small loans through the communal banks—which have materially gained in strength in the last years—and to their shares in the credit operations of the State Treasury. Lately the practice has become established of guaranteeing to the local budget a definite share (for instance, 10 per cent in the Second Industrialization Loan) of the amount of the loan sold in the given territory. But this cannot be said to be a resource of any importance.

The small development of credit operations in the local budgets has the advantage of keeping these budgets practically free from debt, and this lightens the expenditure side of the budget. In 1912 the outstanding debt of the municipalities was 178.5 per cent of their budget, while at present it does not exceed 20 per cent.

Reimbursements from the State Treasury, as mentioned above, go chiefly to pensioning war invalids and reimbursing certain expenditures connected with the upkeep of the army. This source of income is of no special consequence. A considerable share of the expenditures in connection with national defense is transferred from the local budgets into the state budget.

Subventions from the State Treasury take the shape of subventions proper, and grants in aid for specific purposes. The figures of the table do not give a complete picture of the assistance given to local budgets by the state, for the column of "subventions" includes, in some of the accounts presented, sums received from the republics' equalization funds, and a precise delimitation is difficult. We therefore give the corresponding figures as fixed in the state budget:

#### SUBVENTIONS AND GRANTS IN AID TO LOCAL GOVERNMENTS

1923-1924	8.5 million rubles
1924-1925	49.1 million rubles
1925-1926	93.0 million rubles
1926-1927	43.0 million rubles
1927-1928	53.1 million rubles



Until 1926-1927 the growth of the receipts of the local budgets lagged behind the growth of expenditures, and subventions increased steadily, reaching in 1925-1926 the imposing figure of 93 million rubles. The reform of 1926 produced an important shift in these receipts and made it possible to cut down and rationalize the subventions. Subventions for wages have been decreasing (70.8 per cent of the total in 1924-1925; 62.7 per cent in 1925-1926; 30.4 per cent in 1926-1927) and a corresponding increase takes place in subventions for building and construction. The policy is not so much to decrease the volume of subventions, as to limit the objects for which they are given. The importance of subventions for construction and building may be illustrated by the following figures:

**BUILDING SUBVENTIONS TO LOCAL GOVERNMENT  
BY RUSSIAN REPUBLIC**

	Subvention (Thousand Rubles)	Local Means (Thousand Rubles)	Relative Weight of Subvention (Percentage of Total)
<i>School construction</i>			
1924-1925 .....	1,550	1,357	53.1
1925-1926 .....	5,400	5,005	51.9
1926-1927 .....	3,750	12,612	22.9
<i>Hospital construction</i>			
1924-1925 .....	.....	.....	.....
1925-1926 .....	2,950	5,729	34.0
1926-1927 .....	2,010	10,635	15.9
<i>Road construction</i>			
1924-1925 .....	1,375	7,043	16.4
1925-1926 .....	7,000	12,273	36.2
1926-1927 .....	4,800	21,250	18.4

With regard to construction, subventions have played successfully the part assigned them, and have stimulated increased investment from local budgets. The increased subventions in 1927-1928 were intended chiefly for school and hospital construction. Donations to cover local budget deficits were received only in the border republics and throughout the rest of the Union subventions were given for specific purposes only. Thus the financial policy de-

veloped a finer and more precise method for influencing local economy.

We may mention in this connection the subventions from the regulating, or equalization, funds<sup>6</sup> which were omitted from our table in order to avoid duplication of items of income. The regulating, or equalization, funds, have been created in the budgets of the republics as well as in the local (intra-gubernia) budgets. They are supplied out of the centralized means obtained through deductions (allocations) from the trade-license tax, partly also from the agricultural tax, and the state's income, and from the surplus of receipts over expenditures in the budgets of the supreme administrative organs. The widely differing economic conditions of the separate republics have led to different ways of handling these funds. It must be emphasized that the regulation or equalization of local budgets takes place not only through the centralized fund, but is also cared for when fixing for the various local budgets the deductions or shares granted them from state taxes and other state receipts. Equalizing government services, within regions, gubernias, and uyezds, as well as within entire republics, must first of all be accomplished by such a distribution of receipts to the various budgets as will reduce need for a central fund to a minimum. The possibilities of maneuvering with sources of income are much wider here than they are for the Union as a whole. In 1926-1927 local equalization funds in the Russian Republic totaled 47.8 million rubles. With some deviations, this system of regulating and equalizing is operative in the other republics also, assuring a greater equality in the distribution of resources between the separate budgets.

The receipts of local budgets, grouped by republics, show that the most rapid progress toward economic stability has been made, in the period between 1923 and 1928, by the local budgets of the Transcaucasian Republic, the increase being 420.1 per cent. Next follow White Russia with 296.7 per cent; the Ukraine with 229.1 per cent; and the Russian

<sup>6</sup> Analogous to those state school funds in the United States which are used to insure "every child a minimum of schooling no matter how poor the district he lives in may be." (EDITORS.)

Republic with 200.7 per cent. The later years have brought greater uniformity into the development of local budgets. Only the Transcaucasian Republic, the Uzbekian and the Turkomanian republics, where the foundations of local economy are still being laid, continue to show a high rate of growth: the two latter republics have more than tripled the volume of their budgets. Using the net budgets for the sake of a greater comparability of data, we observe the following characteristic structure of the different local budgets: The share of non-tax income is largest in the White Russian and the Russian republics, thanks to the considerable forest income and, in the latter, also to the development of communal economy in Leningrad, Moscow, and other important centers. The high relative weight of tax revenue in the Ukraine is due to the development of the agricultural tax. The weight of subventions from the State Treasury is largest in the Turkomanian Republic (19.3 per cent of the budget), and the Transcaucasian Republic (18.4 per cent).

With the help of per capita data we can make an appraisal of the respective strengths of the separate republics' budgets. The Russian Republic has the largest per capita revenue, followed by the Ukraine and Transcaucasia. White Russia is less well provided for, owing to the weakness of tax resources.

#### V. EXPENDITURES OF LOCAL BUDGETS

The structure and movement of local expenditure budgets may be shown by the table on the following page.

Expenditures for public education have the largest relative weight (26 per cent of the budget in 1927-1928) and at the same time show a rapid growth (253.8 per cent in four years). Pre-war appropriations for public education have been far exceeded throughout the budget system, having been 0.71 rubles per capita in 1913, while in 1927-1928 they were about 2.13 rubles<sup>7</sup> per capita (\$1.10). The number of

<sup>7</sup> Recalculation into pre-war rubles has been made according to the wholesale price index. Cost in the United States in 1926 was \$102.05 per pupil in average daily attendance, or \$17.50 per capita of population, in pre-war dollars about \$10.00 per capita. (Editors.)

## EXPENDITURES OF LOCAL BUDGETS (GROSS)

Item	Million rubles				Percentage Growth, 1927-1928 over 1923-1924	Percentage of 1927-1928 Total
	1923-1924	1924-1925	1925-1926	1926-1927		
Administration, courts, police.....	123.9	210.0	289.2	293.5	117.3	13.2
Public education .....	149.8	228.5	327.7	434.4	253.8	26.0
Health preservation .....	79.8	110.8	152.9	196.8	189.8	11.3
Social insurance and protection of labor .....	8.6	14.6	21.2	37.4	468.3	2.4
Communal economy .....	80.3	96.8	129.1	148.4	87.6	7.4
Communal enterprises .....	99.1	123.7	170.2	208.1	139.7	11.6
Local industry .....	2.5	0.5	9.8	70.5	74.2	3.6
Agriculture .....	19.0	32.3	49.8	67.4	84.0	4.1
Ways and communications.....	7.4	15.6	27.6	40.0	615.4	2.6
Appropriations to special funds and capitals .....	.....	.....	49.1	124.0	.....	7.8
Other expenses* .....	50.4	135.7	136.7	183.2	303.9	10.0
Total expenses .....	620.8	968.5	1,363.3	1,803.7	2,040.1	100.0

\* This includes special expenses (amortization of debt, purchase of shares and stocks, expenses for defense, etc.) and amortization of indebtedness on the budget of the preceding year.

pupils in primary schools in 1926-1927 was 9,903,000, as against 7,236,000 in 1914-1915; those in secondary schools 785,000 as against 565,000; those in professional schools 588,000 as against 267,000; and those in higher educational institutions, 163,000 as against 125,000.<sup>8</sup>

The local budget which supports chiefly the primary and the general secondary education has thus assured quite an imposing scheme of public education. The percentage of all children between the ages of 8 and 11 going to school in 1924-1925 was 42.9 on an average (52.1 per cent in cities, 41.2 per cent in villages); 52.4 per cent (62.6 per cent in cities, 50.5 per cent in villages) in 1925-1926; 56.9 per cent in 1926-1927 (63.9 per cent in cities and 55.7 per cent in villages).

The share of local budgets in appropriations for public education compared with the state budget may be seen from the following figures:

## EXPENDITURES FOR POPULAR EDUCATION BY SOURCE

(Million rubles)

Source	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
State budget* . . . . .	102.0	155.2	213.8	255.5	300.0
Local budget . . . . .	149.8	228.5	327.7	434.4	529.8
Total . . . . .	251.8	383.7	541.5	689.9	829.8
Percentage, local budget of total . . .	59.5	59.5	60.5	63.0	63.9

\* Including expenditures for education on public carriers.

The significance of the local budget has been growing steadily, in spite even of the rapid increase of the appropriations for that purpose from the state budget, and this testifies to a strengthening of the primary school system; in 1927-1928 the local budget furnished 63.9 per cent of these expenses as against 59.5 per cent in 1923-1924 and 40.0 per cent in 1913.

Expenditures for government (including justice and police) take up 13.2 per cent of the budget of 1927-1928. Al-

<sup>8</sup> According to data of the Central Statistical Office.

though during four years this item has grown by 117.3 per cent, the purpose being to improve and strengthen the local government machine, still this increase was not so great as that of the state budget as a whole; and in 1927-1928 a further decline has appeared. The régime of economy which we mentioned in the preceding chapter had its effect upon local budgets as well, and has resulted in an addition to those resources that could be spent for productive purposes.

Health preservation takes up 11.3 per cent of the budget of 1927-1928, showing an increase of 189.8 per cent in four years. This comparatively slow progress does not mean a lack of attention to this important branch of local economy; it has been caused by an increase in expenditures for health preservation in the estimates of the organizations for social insurance, which have helped considerably the work of health preservation especially in cities.

The share of local budgets in the financing of health preservation, compared with the state budget, has moved in the following manner:

#### EXPENDITURES ON HEALTH PRESERVATION BY SOURCE

(*Million rubles*)

Source	1923-1924	1924-1925	1925-1926	1926-1927	1927-1928
State budget .....	29.2	40.0	60.1	71.9	85.5
Local budget .....	79.8	110.8	152.9	196.8	231.2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total .....	109.0	150.8	213.0	268.7	316.7
Percentage, local budget of total ..	73.1	73.5	71.8	73.2	73.0

The importance of local budgets compared with the state budget is even greater in health preservation than in the domain of public education; and we see a stabilization of the relative weight of the local budgets. The system of medical service has been developing parallel with the special medical and learned institutions.

Appropriations for social insurance play no important part in the local budgets (2.4 per cent in 1927-1928), but they increase very rapidly (468.3 per cent in four years), assuring the pensioning of aged workers, war invalids (for

which the local budgets are partially reimbursed by the state), etc. Here, as in the domain of health preservation, there is some differentiation of functions, special social insurance organizations assuming the care of workers and employees who have lost employment for one or another reason.

Expenditures for communal economy are those for the upkeep of the offices administering communal property and undertakings (28.8 million rubles in 1926-1927); for the administration and extension of the municipal dwellings fund (41.7 million); for improvements (48.4 million); for fire prevention (24.0 million), and others.

These expenditures make up 7.4 per cent of the budget, and have grown by 87.6 per cent in four years, which is much less of an increase than that of many other appropriations. In 1927-1928 an almost complete stabilization of expenditures for this purpose may be observed. This is explained partly by an internal regrouping of separate items in connection with decreased expenses for the upkeep of offices, partly by the increased financing of dwelling construction from specially designated funds. Here it must be observed that much more is being spent for dwelling construction than is shown above, since a considerable portion of the allocations are accounted for by the fund for dwelling construction and the special capital fund for financing buildings for workers. The total expenditure on dwellings, from the fund, was 36.9 million rubles in 1926-1927, and 41.0 million in 1927-1928; from the special capital fund it was, respectively, 48.8 million and 54.8 million. In 1927-1928 all three sources contributed 28 million rubles for administration and 100 million for capital investments.

Expenditures for communal undertakings make up 11.6 per cent in the budgets for 1927-1928, the growth in four years being 139.7 per cent. This most important branch of the local budget has been developing, as we see, very rapidly; yet the requirements grow faster than the "offerings of communal services," and the local budget faces the problem of a further forcing of expenditures on street cars, water supply, sewers, etc.

It must be said that the necessity for reinforcing the resources for popular education, health preservation, etc., has caused the use of communal undertakings as a reserve source; in 1924-1925 and 1925-1926 an appreciable portion of their profits (in most cases the enterprises are quite profitable) was not used for their own further development but was turned to the support of the general budget. The following table will illustrate this:

RECEIPTS AND EXPENDITURES OF COMMUNAL  
UNDERTAKINGS\*

(Million rubles)

	1924-1925	1925-1926	1926-1927	1927-1928
Receipts .....	177.5	214.4	237.2	282.5
Expenditures .....	130.4	182.0	220.0	274.4
Balance.....	47.1	32.4	17.2	8.1

\* On all budget items.

Thus about 26 per cent of the 1924-1925 earnings of the communal undertakings was taken away from them. Later, however, this percentage declined considerably, since larger investments were made in communal undertakings, and all other income items showed improvement.

In spite of the communal undertakings being weakened by these deductions, the total of capital investments in them has continued to grow, for operating expenses show a slower increase than the budget appropriations (improved operating ratio). Capital investments in communal economy as a whole rose from 25 million rubles in 1924-1925 to 111 million in 1925-1926, to 195 million in 1926-1927, and to 254 million in 1927-1928.

Expenditures for petty industry consist in large part of redistributing contributions received from the profits of the group of industries aided. The total expenditures in 1926-1927 for such support were 70.5 million rubles, including 57.1 million for those local industries not carried in full in the budget and from which as a group 52.2 million came as contributions from profits. Just as the state budget pro-



vides for reinvestment in industries, some of them local, by redistributing profits, so does the local budget in its sphere. But thanks to the high profits of those under control of the local governments this can be done without curtailment of communal and social-cultural activities.

Expenditures for rural economy are of an entirely different nature. Capital investments play a negligible part in them (5.5 million rubles in 1926-1927) and the bulk of the means available goes for service in peasant agricultural operations. Among these the most conspicuous expenses are those for the upkeep of the agronomy and animal husbandry services, experiment stations, veterinary service, etc.

The local budgets, however, perform the important function of current service to agriculture. Compared to pre-war conditions the agronomy and animal husbandry services have materially progressed. In 1913 there were in the territory of the present Russian Republic 1,000 agronomy division offices; in 1926-1927 there were 3,150. In 1913 there were 1,636 animal husbandry division offices; in 1925-1926 there were 3,522.

The growth of expenditures for ways and communications has been a record next to that for industry (615.4 per cent in four years). Still, this item has not yet reached that place in the budget which it must occupy if our lack of roads is to be seriously remedied. In 1913 there were 200,000 kilometers of gubernia and uezd roads; we have now, including the volost and district roads, over one million kilometers. Several governmental measures taken lately assure a considerable increase in the expenditures of local budgets for road building. The entire receipts from the tax on freight, for example, have been allotted to the road fund.

In résumé of the structure of the local expenditure budgets in the separate republics, we may state that in the better developed republics the share of social-cultural expenses as a whole is larger than in the more backward ones; while expenses of government and economy in the latter occupy a larger place. However, the rate of development of social-cultural expenditures in the local budgets of the border republics is quite rapid, and per capita figures are

often even higher than those in Russia or the Ukraine. These expenditures, as a rule, are not limited so much by shortage of budget resources as by a shortage of native trained workers. Therefore it is not by any means an accident that the relative weight of the state budget resources in the work of popular education and health preservation is considerably higher for these border republics. Besides assuming a part of the expenditures which, properly speaking, belong in a local budget, the state budget is preparing the ground for, later, more extensive appropriations for these purposes in the local budget: it helps build school and hospital buildings, prepare school teachers, etc.

The table opposite illustrates the situation as to social-cultural expenditures and emphasizes still more the relatively large cost of government in the Asiatic republics. This is quite natural, both because of their comparatively small size and because of the high cost of living. It is quite important and necessary to raise to a proper level the political life and the administration of these young commonwealths which only recently were no more than colonial possessions of Russia.

In conclusion of our survey of the expenditure side of local budgets, we may give a brief list of the capital investments made by local budgets in the years 1924-1925 to 1927-1928:

#### CAPITAL INVESTMENTS OF LOCAL BUDGETS

(*Million rubles*)

Year	Social-Cultural Domain	Communal Economy	Local Industry	Roads	Other	Total
1924-1925 ...	19	25	1	12	18	75
1925-1926 ...	36	111	3	26	16	192
1926-1927 ...	52	195	56	35	14	352
1927-1928 ...	69	254	61	46	18	448

In the course of four years the local budgets have made a capital outlay of over 1,067 million rubles, and the investments increase from year to year. The communal economy occupies the highest place among the factors of accumulation, and its development, next to social-cultural work, is the most important function of the local budgets.

EXPENDITURES OF LOCAL BUDGETS AND THOSE OF THE REPUBLICS,\* PER CAPITA OF  
THE POPULATION IN 1927-1928

(Rubles)

Object	RUSSIA			UKRAINIA			WHITE RUSSIA		
	Local	Republic	Total	Local	Republic	Total	Local	Republic	Total
Government†	1.84	0.84	2.68	1.60	0.74	2.34	1.14	0.86	2.00
Social-cultural needs	5.62	2.15	7.77	4.83	1.92	6.75	4.51	2.45	6.96
Economy†	3.57	2.79	6.36	2.78	2.52	5.30	1.77	3.88	5.65
Other expenses	1.30	0.28	1.58	1.50	0.29	1.79	0.80	0.20	1.00
Total expenses	12.33	6.06	18.39	10.71	5.47	16.18	8.22	7.39	15.61

Object	TRANSCAUCASIA			UZBEKIA			TURKOMANIA		
	Local	Republic	Total	Local	Republic	Total	Local	Republic	Total
Government†	2.06	1.65	3.71	2.02	1.34	3.36	2.26	2.17	4.43
Social-cultural needs	5.91	3.45	9.36	3.92	2.64	6.56	5.01	4.08	9.09
Economy†	3.63	5.62	9.25	3.11	4.54	7.65	4.82	10.34	15.16
Other expenses	2.19	0.82	3.01	1.13	0.30	1.43	1.38	0.28	1.66
Total expenses	13.79	11.54	25.33	10.18	8.82	19.00	13.47	16.87	30.34

	COMBINED TOTAL		
	Local	Republic	Total
Government†	1.78	0.89	2.67
Social-cultural needs	5.38	2.20	7.58
Economy†	3.34	2.99	6.33
Other expenses	1.35	0.30	1.65
Total expenses	11.85	6.38	18.23

\* To avoid duplication, the amounts transferred to local budgets are excluded.

† In this table expenditures for administrative-economic government branches are put in the line "Economy."

VI. DIFFERENTIATION OF LOCAL BUDGETS<sup>9</sup>

To conclude our survey of local finances, let us touch upon the differentiation of local budgets. The development of the fundamental principle on which the local budget is built—decentralization of the country's financial system—has required that this decentralization be deepened to a certain extent, that is, that the budgets should be differentiated. This differentiation took place in accordance with changes in the local functions made by general legislation, and the new redivision by districts (rayony) which is being carried out in many parts of the U.S.S.R.

The basic legislative act which served to show the way to this differentiation was that of November 12, 1923, concerning the establishment of volost budgets throughout the country. Further development in this direction was provided by the legislation of the federated republics on the basis of the Union law of 1926. The redivision into districts (rayony) has substituted the latter larger unit for the volost, thereby strengthening the lower budget units. A parallel reinforcement of city and town budgets led to a certain weakening of the regulating<sup>10</sup> budgets—the regional, gubernia, circuit, and uezd, which had played an important part during the period of re-establishing local finances—but later they yielded in importance to the basic budget units. The development of this process is shown in the table on the opposite page.

While all categories of budgets show an absolute growth, the regulating ones among them show a relatively steady decline, while the lower ones which were farthest behind show a corresponding growth. City and town budgets have become stabilized with somewhat of a tendency to lower their relative weight (this weight in 1923–1924 was only 31.4 per cent). If we take into account that the regulating budgets transfer a considerable portion of their income,

<sup>9</sup> We take this to mean that the spheres of action or functions of each branch of local government are defined somewhat as they are in the United States between counties, districts, and municipalities. (EDITORS.)

<sup>10</sup> The smaller units of government are "regulated" by the next larger. (EDITORS.)

## RECEIPTS OF COMBINED LOCAL BUDGETS\*

Division	EXECUTION				ALLOCATION	
	1924-1925		1925-1926		1926-1927	
	Million Rubles	Percent- age of Total	Million Rubles	Percent- age of Total	Million Rubles	Percent- age of Total
Regulative budgets.	427.4	40.3	515.2	34.3	605.4	33.5
City budgets . . . . .	470.5	44.4	662.7	44.0	783.6	43.4
Lower divisions budgets . . . . .	161.5	15.3	327.5	21.7	415.5	23.1
Total budgets..	1,059.4	100.0	1,505.4	100.0	1,804.5	100.0

\* The totals here differ from those quoted previously because regulating funds have been included. Figures are given in accordance with the material given in *Basic Totals of Development of Local Budgets in the U.S.S.R.*, published by Finansovoe Izdatelstvo, Moskva, 1928.

through regulating funds, to the basic budgets, and that consequently such amounts are to be excluded from their own budgets, we may, with even greater right, state that the center of gravity has shifted toward the basic or lower budgets. Only in the Uzbekian Republic and partially in the Transcaucasus have the lower budget units not yet attained their proper relative weight.

## CHAPTER TEN

### FINANCE ADMINISTRATION IN THE U.S.S.R.

*By I. Reingold*

#### I. THE OLD RUSSIAN SYSTEM

The old system of financial administration, destroyed by the October revolution and the subsequent reforms, dated from the beginning of the nineteenth century. The Ministry of Finance itself was founded in 1802 and existed without great changes for more than one hundred years. The chief elements of the system were these:

At the head stood the Minister of Finance, with assistants who managed the following central departments:

1. The Department of the State Treasury, custodian of the funds, cashier, and charged with the general accounting for state receipts and expenditures. Directly subordinated to this department was the Central Treasury to which the branch or local Treasury Offices (*Kazionnya Palaty*) were responsible.

2. The Department of Tax Revenues, in charge of direct taxes. A section of this department was the "Stamp Treasury," the duty of which was to supply local government agencies with stamps for the payment of stamp taxes. The branch Treasury Offices (*Kazionnya Palaty*) were responsible to this Department so far as their work concerned taxes, as were also the inspectors of peasant levies.

3. The Head Office for Non-Tax Revenues and the Government Sale of Beverages. This department was in charge of all excises and of the State Alcohol Monopoly. Its local organs were the gubernia excise offices and their subordinate district excise offices.

4. The Department of Customs Revenues, in charge of the customs administration and the local customs offices.

5. The Department of Railway Affairs, in charge of railway tariffs, various duties connected with the passenger service, and the accounts of the State Treasury with the private railways.

6. The Special Chancery for Credit, in charge of credit institutions, foreign loan negotiations, debts of the State Treasury, currency matters, and the mint.

7. The Minister's General Chancery.

Subordinated directly to the Minister were (1) the State Commission for Amortization of Debts; (2) the State Nobility Bank and Peasant Bank; (3) the State Savings Banks; (4) the Loan Treasury; (5) the Government Printing Office; and (6) the Special Corps of Frontier Guards.

The chief characteristics of this system were bureaucratic centralization and complete separation from the local self-governments. The bureaucracy had an utter distrust and fear of all local public self-government bodies, seeing in them a threat to its existence; and this attitude found its expression in the financial system.

The Revolution broke this machine, destroyed the antinomy of state and local authorities, and substituted, from top to bottom throughout, soviets with their own financial departments, which, while serving the needs of the whole state, attended also to the requirements of local economy and administration.

## II. THE PEOPLE'S COMMISSARIATS OF FINANCE

Among the other People's Commissariats which took the place of the old Ministries, by the decree of December 28, 1917, there was established the People's Commissariat of Finance of the Russian Socialist Federated Soviet Republic.

With the formation of the Union of Soviet Republics which the Russian Socialist Federated Soviet Republic joined as one of the members, the constitution of the former People's Commissariat of Finance of the Russian Republic also changed. A separate People's Commissariat of Finance for the Union was set up, and there was created in each of the federated republics a People's Commissariat of Finance

for the particular republic. Some of the federated republics include in their territories so-called autonomous republics and regions with their corresponding People's Commissariats of Finance; and the Transcaucasian Republic, or more exactly federation, includes independent republics which also include other autonomous republics. The resulting scheme of organization is shown in tabular form on the opposite page.

### III. THE UNION COMMISSARIAT OF FINANCE

The People's Commissariat of Finance of the Union is, according to the Union constitution, one of the so-called directive, or consolidated, Commissariats, in that its position is intermediate between unconditionally centralized Union Commissariats such as those of War, Transportation, Foreign Affairs, etc., and the wholly decentralized ones of the republics, which have no corresponding Union Commissariats, such as those of Agriculture, Health, etc. Its general instructions are binding for all the Commissariats of Finance of the republics, although in questions which have no importance outside of their respective republics the latter are entirely autonomous.

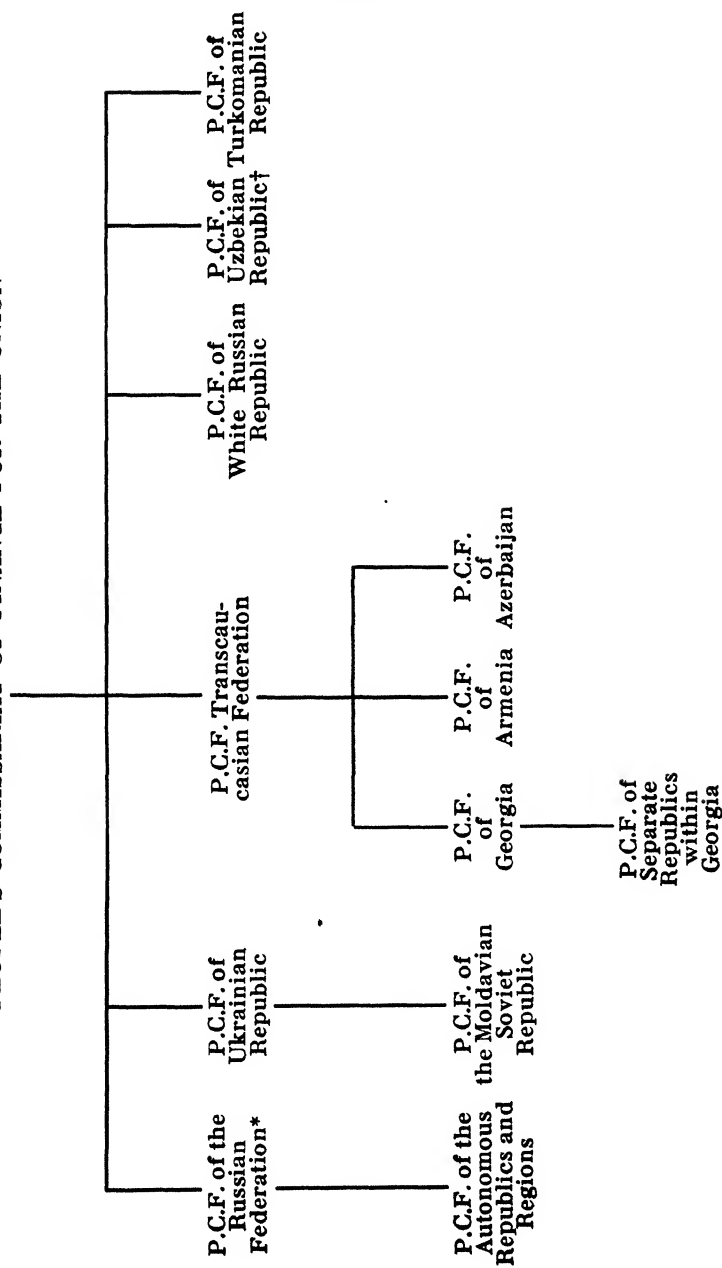
All People's Commissariats have in general the following structure:

At the head of each is the People's Commissar who is a member of the Soviet of People's Commissars (Sovnarkom). He has under his chairmanship the Collegium of the Commissariat, whose members are appointed by the Sovnarkom.

The Commissar has complete authority free of control by the Collegium (consisting of the bureau chiefs of the department); but in case he differs with the Collegium, the latter, without suspending his decisions, may appeal to the Sovnarkom or to the Presidium of the Central Executive Committee (Tsik). Thus the Collegium, jointly with the Commissar himself, is responsible to the government and to the Tsik of the soviets which had elected him. One or two from the membership of the Collegium are appointed alternates or substitutes for the Commissar and in certain cases



## PEOPLE'S COMMISSARIAT OF FINANCE FOR THE UNION



\* "Federation" is used to designate those republics which have within them other republics with autonomous powers.

† In October 1929 Tajikistan was raised from an autonomous republic in Uzbek to a federal state. The chart was drawn before this occurred. (Ebrross.)

have his full authority. Each member of the Collegium manages some Central Bureau.

Within the Commissariat of Finance of the Union there are the following Central Bureaus: (1) Administrative; (2) Budget; (3) Currency; (4) State Taxes; (5) State Alcohol Monopoly (Tsentsrospirt); (6) State Revenues (Non-Tax); (7) Local Finance; (8) Government Printing Office; (9) Savings Banks; (10) State Insurance; (11) Planning; (12) Financial Control; and (13) the State Bank, directly responsible to the People's Commissariat of Finance. The Office of the State Playing Cards Monopoly exists as a separate department. The functions of each department are:

1. *Administrative*—settlement of questions of organization and general administration, inspection and instruction.

2. *Budget*—care of all matters connected with the state budget, its making and execution; the filling, to a certain extent, of the duties of the pre-revolutionary state treasury.

3. *Currency*—settlement of questions of currency circulation and state credit; supervision of the activity of all credit institutions, state and private; the defining of the limits of Treasury note issues; administration of the minting of coin; the keeping and spending of the state gold fund. This department concentrates in its hands the foreign currency in the state funds and conducts the operations of its foreign accounts.

4. *State Taxes*—direction of the whole taxation policy of the country and direct administration of the collection of all taxes, including local taxes.

5. *Tsentsrospirt*—administration of the State Alcohol Monopoly.

6. *Office of State Revenues*—the accounting of the state funds transferred to the state economic and credit institutions; participation in the examination of their financial plans; the accounting for and selling of the state stocks of raw and other materials; the working out of projects of legislation for the regulating of receipts and profits from state undertakings and other properties; the finding of means for the reinforcement of state revenues; examination of balance sheets and the auditing of the accounts of state

undertakings within the limits prescribed by the law on trusts, and of the undertakings required to submit public accounts; care of the refunding of loans made by the Treasury.

7. *Planning Office*—the working out of the prospective financial plans and the considering of the fundamental questions of financial policy and practice in a theoretical light. This department thus presents something like a financial laboratory.

8. *The Financial Control Office*—the auditing of the accounts of all departments and institutions which are carried on the state budget and the making of the report on the execution of the state budget.

The functions of the other departments are clear from their names.

This structure of the Union financial center reflects the peculiarities of the structure of the Soviet state, in which those functions are centralized which touch on the vital interests of the Union as a whole. Although a number of the departments fill the same functions as the pre-war Ministry of Finance, they have nevertheless far outgrown the latter in the breadth and completeness of their dealing with matters involved. Besides, new departments have been founded which were unknown to the old Ministry (Office of State Revenues, Office of Local Finances, Currency Office, Planning Office, State Insurance Office). The whole work of the Finance Commissariat is most closely co-ordinated with the general work of the other departments managing national economy, on which the Finance Commissariat exercises a vast influence by one method or another.

#### IV. THE FINANCE COMMISSARIATS OF THE REPUBLICS AND THE DISTRICTS

The Finance Commissariats of the federated republics are composed of a smaller number of departments: (1) General; (2) Budget; (3) Taxes; (4) State Revenue; (5) Local Finance; (6) Financial Control; (7) Currency.

They make and execute the state budget of the repub-

lics, supervise local budgets, exercise within the boundaries of their republics the general Union tax policy, account for state capital in the undertakings and institutions of national importance and supervise the republics' credit institutions.

The local organs of finance administration are the gubernia finance departments; and in those cases in which the gubernias are abolished and merged into oblasts (Urals, Middle and Lower Volga, Central Black Region, and others), the oblast financial departments. Next follow, respectively, the uezd or district financial departments, and, finally, volost or local financial offices, which are the primary financial nuclei.

Each of these organs, being a component part of the Executive Committee of the Soviets, is doubly subordinate: horizontally to the Ispolkom (Executive Committee) and vertically to the next higher financial office. The system of double subordination is logically derived from the dual nature of Soviet organs, which represent, on the one hand, the supreme state power, and on the other, the local self-government. At the head of each such organ stands, as a rule, a member of the Executive Committee. From this dual subordination, however, there does not follow any dual power; for the competence and the rights of central and local organs, respectively, are strictly delimited, the principle being to guarantee the execution by local organs of the Union-wide and the separate republics' policies, with a maximum of independence in questions depending on purely local and customary conditions. On the contrary, only such a system, under which all financial measures are carried out with the support and participation of the most authoritative organs of the central government, can guarantee their successful execution. At the same time the strictest financial discipline is observed.

The gubernia financial organs are built more or less on the same pattern but with a smaller apparatus than the Finance Commissariats of the republics. The same must be said of the uezd or the regional finance departments. The functions of the primary financial nuclei are less exactly

regulated, and until lately they have not played much of an independent part financially. Soon, in connection with the abolition of the old administrative divisions and the substitution of rayony, i.e., more extensive territorial units, for the volosts, the financial offices of the Executive Committees will have to take on new importance and be included in the system of financial organs.

The local financial organs have at their disposal the general taxing machinery for the administration of all taxes. For direct taxes, the offices of assessors and their assistants have been established, and for indirect taxes there are among the staff certain outside or circuit inspectors. There are at the disposal of inspectors financial agents with strictly defined fields of action and a staff of technical auditors.

#### V. BOARDS OF TAX APPEALS

For supervision over the regularity of tax assessments and for hearing complaints concerning taxation, gubernia commissions, including representatives from taxpayers, and vested with full authority, have been established for all the principal taxes. Similar commissions of review and appeal exist at the offices of section (*uchastok*) inspectors for the assessment of taxes.

The most acute problems appear when private individuals and enterprises are taxed. The difficulties of correctly accounting for the incomes of private capitalists require that the financial inspectors make use of a very carefully prepared and thorough analysis of all income indices. In the first years, the technique for calculating private income was rather primitive and was not lacking in a certain administrative arbitrariness. The policy later adopted by the finance administration aims to compel private persons engaged in industry and trade to keep their books and stock accounts correctly and without concealment of income; and in so far as this requirement is being met the inspectors have substituted analysis of accounts for the method of estimating income from outward indices; but even now, the struggle to introduce correct bookkeeping is still necessary,

as well as revision of the figures of income as shown by the books, through many-sided auditing.

Such are the main lines of the existing financial organization which presents a fairly harmonious and logically developed system.

#### VI. STATE BANK AS DEPOSITARY AND CASHIER

It is necessary to give special consideration to the mutual relations of the State Treasury and the State Bank in the handling of the money and accounts of the Union.

The custody, receipt, and payment of the funds in the consolidated Union and local budgets are regulated by a law ratified August 22, 1928. The publication of this law completed the reform of the methods of handling government moneys which was begun at the end of 1925 and which aimed, in the final analysis, at a gradual abolition of independently acting depositaries of the Finance Commissariat (Narkomfin), or cashiers' offices of the so-called independent treasury type, and their replacement throughout by State Bank offices.

The State Bank, with its offices, branches, and agencies, became from October 1, 1928, on, the chief depositary of the Union, in which all receipts should concentrate and on which, with few exceptions, all expenditure warrants should be drawn.

It is generally recognized that there are only two practicable methods of organizing the treasury service of a commonwealth: a system of independent treasury offices under the Finance Ministry; or a system which entrusts all this work to banking institutions as depositaries.

The chief advantage of the latter system is that it makes possible a maximum use of all the free resources of the State Treasury for the financing of national economy; not a penny of the accumulated funds lies idle but goes into the national economic turnover with other funds of the State Bank. Besides, it is only under such a system, with the more intimate connection between the State Bank establishments and the whole credit system of the country, that it is possible to

introduce moneyless accounts<sup>1</sup> into the vast domain of the expenditure budget of the Treasury.

How does the State Bank carry out this complicated and cumbersome business of executing a seven-billion-ruble budget? As pointed out above, in so far as receipts are concerned, the Bank does not act alone. In the matter of delivering to the state the revenues collected, a whole army of various collecting officers or cashiers are responsible to it—officers of the postal, customs, forest, and railway services, those belonging to various jurisdictional establishments, etc. The Bank also receives the assistance of the State Labor Savings Banks, of the post offices, through their money order system, and of the cashiers of the rayony and volost Executive Committees, who deliver the state receipts collected by them to the nearest offices of the Bank.

It is interesting to note some of the figures relating to all this mass of institutions which participate in the collection of revenue. The first place is occupied by the post offices; indeed, there are 23,000 various postal departments, including mail carriers, who sell postage stamps everywhere, i.e., are the collectors of certain state revenues. Then follow about five thousand collectors of the lower soviet organs, some four thousand railway agents, more than three thousand forest collectors, some twenty-five hundred collectors attached to judicial institutions, etc. This is the army with the help of which the many billions of receipts flow from their various small streamlets into the one river bed of the State Bank. We must add that under the new law the ranks of this army gathering state revenues into the State Bank are supplemented by other credit institutions besides those of the State Bank itself. For the greater convenience of the people, says this law, the receipt of payments to the state may be made by other credit institutions on condition that immediate transmission of such receipts to the nearest State Bank office be guaranteed.

Budget payments, unlike the assembling of state reve-

<sup>1</sup> The author apparently means transfer from one account to another on the books of the bank, as, for example, by checks, drafts, or warrants. (EDITORS.)

nues, are made almost exclusively through the offices of the State Bank. This is naturally so because payments are made on strictly regulated claims or warrants and definitely within the limits of the credits established by law. So it is made obligatory on all branches of the State Bank to cash all properly audited or listed warrants or vouchers. However, in those places where there are no branches or offices of the State Bank but where other credit institutions operate, the latter may be authorized to act in their capacity of correspondents of the State Bank and cash warrants. Pension payments are made by the State Labor Savings Bank.

The law of August 22, 1928, provides for the execution not only of the state but of the local budgets as well. This is natural, considering the close connection which exists between the state and the local budgets and the fact that no less than one-half of the funds of local budgets is obtained from the central treasury through deductions (allocations) from state taxes or additions (surtaxes) to them.<sup>2</sup>

According to the new law the funds of the local budgets are also handled mainly by the State Bank branches or offices; though, by Article 3 of that law, under certain stipulated conditions, the funds may be entrusted to communal and town banks. The funds of local budgets in the keeping of State Bank branches, communal and town banks, are carried as interest-bearing checking accounts opened separately for each budget.

We cannot avoid mentioning that this Article 3 of the new law legalizes an order of things which had been adopted before as a result of practical requirements, by some of the large Executive Committees, that of Moscow at the head. Indeed, with the existence of firmly established communal

<sup>2</sup> To an American it may seem strange that there should be so close a connection between the Union and the local governments, since in the United States the states alone control local governments. The soviet system, it should be remembered, starts with local soviets (committees) controlling industry, agriculture, and government at the bottom, and builds up along national lines, so that the republic is in a certain sense an interpolated factor superimposed on the line of power. The great city soviets of Moscow are especially powerful. In a sense, the very logic of sovietism thus places the local system above the republics. Hence the direct connection with the Union. (EDITORS.)



and town banks it would have been very difficult to object to entrusting to them the execution of local budgets which stand in such close and indissoluble connection with them.

The State Bank keeps its accounts with the State Treasury by merging its accounts of all the budget funds in one so-called centralized account current of the Budget Department of the Narkomfin of the Union in the head office of the Bank. Thanks to this non-interest-bearing centralized account current, all the local expenditures of the Treasury are made by State Bank branches or offices without the transfer of state budget deposits to their hands. At the close of each day the figures of the balances are reported to the head office, which then credits the account current with any surplus of receipts over payments or debits it when the day's receipts in the branch fail to cover the payments.

It must be observed in describing the non-interest-bearing account current, mentioned above, that there are two categories of large budget funds which do not appear in this account. These are the funds of the Narkompochtél (People's Commissariat of Posts and Telegraphs) and the operating receipts and expenditures of railways but not their outlays for construction and surveying. The postal department, although carried on the Union consolidated state budget, has been put on a self-accounting basis; and, therefore, receipts of the mails, telegraph, telephone, and radio do not lose their individual identity by being deposited in the State Bank branches or offices and carried into the centralized account current of the Budget Department of the Union Narkomfin, but they are deposited in an interest-bearing current account of the Narkompochtél and are spent within the limits of such accounts exclusively for the needs of the service of communication.

The same method is used with regard to the receipts and expenditures of railroads. These funds are concentrated in accounts at the State Bank branches or offices; they are not turned into the common account but serve as the only account from which all the operation costs of railway transportation are covered.

## CHAPTER ELEVEN

### PROSPECTS OF DEVELOPMENT OF THE FINANCIAL SYSTEM OF THE U.S.S.R.

*By G. Y. Sokolnikov*

The foregoing chapters show how great and intensive has been the work accomplished by the Soviet State in creating a stable financial system; how, step by step, the chaos which ensued after the break-up of the old Ship of State was changed into a new financial order corresponding to the new social-political principles which lie at the basis of the existence of the Federation of Soviet Socialist Republics.

It would, nevertheless, be premature to infer that the present financial system needs no essential corrections, that it is already adequate to meet the problems which the financial mechanism of the country has to face. It would be useless to guess just how the system will look ten years from now, at the beginning of its third decade. Doubtless it will be radically rebuilt by then, in accordance with changes in the political situation, the reconstruction of the country's present backward economy, and the raising of the present low cultural level.

Under the preliminary five-year economic plan in the form in which it now exists, attempts have been made to predict the evolution of the state budget. According to one such estimate made in 1925-1926, it was believed that state expenditures in 1930-1931, as compared with 1925-1926, would be somewhat as shown in the table on the opposite page.

The changes predicted are in the direction of curtailed expenditures for the upkeep of the state machine, defense, etc., and for certain other socialized activities through greater efficiency of some of the state agencies with eco-

Group	1925-1926 (Percentage)	1930-1931 (Percentage)
Administration expenditures on state government defense and safety (police).....	24.5	19.5
Operating and exploitation expenses of state budget (social-cult. institutions, transportation, communication, credit operations, etc.)	42.6	39.4
Financing national economy.....	20.2	30.4
Reserves .....	4.4	1.1
Means transferred to local budgets.....	8.3	9.6
Total .....	100.0	100.0

conomic functions; increased budget allocations in promoting the accumulation of productive capital; and a redistribution of resources as between the state budget and the local, in favor of the latter. The present tendencies are in line with these predictions; but nevertheless it is possible to imagine a somewhat different course of development. Industry and some of the other branches of economy will gain strength, and they will to a certain extent be able to provide for their capital expansion in other ways, e.g., in the form of independent issues of bonded loans, than their present dependence on allocations out of the proceeds of internal loans issued by the State Treasury. If this should happen, the growth of the internal Treasury debt would be checked; while, at the same time, the participation of the state in the financing of national economy would be somewhat curtailed, and such a regrouping would change the relative importance of the various classes of expenditures in the state budget.

The relations between the Union budget and those of the federated republics are at present the field in which the least stability and finality have been achieved. The excessive centralization of the transition period is still present, though it cannot remain as a permanent system. The budgets of the federated republics are in need of a more definite grant of fixed sources of revenue; they need a wider field of budget autonomy, though of course under the general control of Union agencies. The legal status of the budgets of the fed-

erated republics today, and still more the present budget practice, which tends to narrow their budget rights rather than extend them, have as their point of departure the possibility of united budget maneuvering of all the financial resources of the country. But, the less acute the general financial need of the state becomes and the more the financial policy of the federated republics assumes a stable form the less reason will there be for postponing a clear formulation of the budget rights of the republics and introducing a division of labor between the Union financial system and that of the separate republics. Principles of sound financial decentralization will, in this way, strengthen the position of the republics' budgets; but the same principles will probably serve to change the interrelations of republics' and local budgets in the direction of a strengthening and expansion of the latter. Here, too, the last word has by no means been said: the rise of the lower strata of Soviet public activity, the growth of spontaneity among the working masses, will inevitably lead to an expansion of the activity of the lesser government agencies whose operations are expressed in local budgets and find their financial resources there. Such a development will be a realization of the fundamentals of the Soviet system and will have a very important influence on the whole budget scheme of the state.

So far as taxation policies are concerned, the principal tendencies will be, first, the stabilization and then the contraction of the relative weight of indirect taxation in the general total of the state's budget receipts; then, a more careful and more perfected application of direct taxation. There is no doubt that the fundamental direct taxes—the income tax and the single agricultural tax—must still undergo very considerable modifications, especially the latter, in order to arrive at a system which will meet the political and economic requirements of the country.

Finally, the development of domestic state credit (leaving aside the problem of foreign loans) will be determined by the rate of growth of savings—which, in turn, will depend on the rise of the economic level of the country.

The economic plans picture a steep upward curve of

economic progress for the near future and all forces are mobilized to carry these plans into realization. This strain inevitably creates temporary difficulties for the Soviet system of finance; but the more satisfactory the results of these steady efforts on the economic front, the more the planned economy achieves an increase of the country's productivity, the more stable will be the general status of the financial system, on the basis of which the whole Soviet economy is built.



## INDEX

- Administration (*see* Finance administration)
- Administrative expenses: 1913 and 1928, 301-307; 1923 to 1928, 321-322
- Agricultural produce (*see also* Food supplies; Grain): compulsory collection, 1918, 83-97
- Agricultural tax, Soviet Union (*see also* Direct taxes): application and burden, 162-168, 284; introduced, 154-159; operation, 160-168; payment in kind discontinued, 161
- Agriculture: low status in 1921, 139; progress indices, 1924-1928, 166; state aid under national economy, 355, 361-366
- Alcohol (*see also* Excise taxes; Vodka tax): manufacture and sale under Soviet Union, 194-199; pre-war monopoly, expenditures and revenues, 11, 23, 39, 42, 443; prohibition in 1914, revenues cease, 40, 43, 44
- Alexander I, Tsar, inaugurated liberal reforms, 1 n., 44
- Alexander II, Tsar, reforms and conditions during the reign of, 1 n.
- All-Russian Central Executive Committee: abolition of state debts, 119; decree abolishing excise tax, 117; decree concerning food requisition cordons on railways, 84 n.; decree concerning free distribution of food, 81 n.; decree concerning local soviet budgets, 137; decree on capital levy, 114; decree on forests, 103 n.; decree on labor duties, 100; decree on taxation in kind, 87 n., 96, 96 n.
- All-Russian Conference of Soviets: budget regulations, 131; declaration regarding labor, 98-99; food resolutions, 92, 92 n.; ratification of "Five-Year Plan," 336
- Allied republics: budgets of, 275-276, 392-412, 430-431, 437-441; financial administration, 443-453
- America (*see also* United States), war loans to Russia, 61, 62
- Anglo - Russian Parliamentary Committee, 139 n.
- Anglo-Russian Trade Agreement, signed, 74 n.
- Baltic states, peace signed with Soviet Russia, 74 n.
- Banks, revenues from, in Soviet state, 235-240
- Basic Totals of Development of Local Budgets in the U.S.S.R.*, cited, 441 n.
- Beverages, pre-war tax on (*see also* Vodka tax), 23, 39, 40
- Bogolepov, M., 1
- Bolsheviks, 74 n.
- Bond issues (*see also* Loans), amounts of, in 1914-1916, 66-71
- Brest-Litovsk, Treaty of, 71

- Budget, civil war, 1917-1921: budget defined, 109 n.; budget in kind proposed, 129; comparison with 1913, 127; currency depreciation and, 121-123; estimates, 1918-1921, 109-110; paper money source of revenue, 109-111; receipts and expenditures, 1918-1922, 126; system, 120-137
- Budget, under NEP: allied republics, 392-412; expenditures, 1922 to 1928, 309-332; financing of national economy, 348-391; local budgets, 413-441; 1928 and 1913 compared, 276-279, 293-308; re-establishment of money tax and currency reform, 143-159; in the system of planned economy, 333-347; taxation and loans, 159-273
- Budget, pre-war: definition of term as used in text, 2 n.; educational expenditures, 3-5, 11-12; expenditures, 1903 and 1913, 11; free treasury fund, 9-10; imperial court expenditures, 3-4, 11; national debt, 3-13; national defense, 3-13; 1913 and 1928 compared, 276-279, 293-308; ordinary revenues, 1913, 39; per capita receipts, 1885-1913, 24; receipts other than taxes, 1885, 1900, 1913, 25; regulations decreed, 2; slow financial development, 3; taxation and, 16, 18-21
- Budget, war-time: curtailment of receipts from railways, timber lands, customs, 41; effect of prohibition, 40-41; enemy penetration and revenue loss, 46; expenditures, 1914-1918, 35-37; 1915 budget, 46, 49-50; 1916 budget, 47-48, 52-54; 1917 budget, 54-57
- Bureau of Labor Statistics, 112, 127
- Canada, 252
- Capital levy (*see also* War tax), 48 n., 114, 132
- Catherine the Great, 1 n.
- Caucasus: cut off from Soviet control till 1920, 78; taxes increased in 1914, 44
- Central European Powers (*see also* Germany), made peace with Soviet, 74 n.
- Central Statistical Office: census of nationalized industry, 106-108; index of prices, 278; *The People's Economy of the U.S.S.R. in Figures*, cited, 93 n.; *Totals of Ten Years' Soviet Rule, 1917-1927*, cited, 79 n., 87 n., 93 n.
- Chervonets, new bank note issued under NEP, 149-150, 157-159, 315
- China, expenditures in, 8
- Chinese Eastern Railway, 305
- Church government, pre-war expenditure, 11
- Civil government, expenses, 1913 and 1928, 301
- Civil war, 1917-1921: budget system during, 120-137; cancellation of debts and private securities, 119-137; compulsory collections, 83-98; economic situation, 79-83; general characteristics, 72-78; labor duties, 98-100; paper money as source of state revenue, 109-119; state property and undertakings, 100-109
- Coins, disappear from circulation during war, 49, 49 n.
- Collection of Decrees and Rulings on National Economy*, cited, 103 n.



- Collection of Government Acts*, cited, 81 n., 83 n., 84 n., 85 n., 88 n., 90 n., 91 n., 96 n., 97 n., 99 n., 100 n., 102 n., 103 n., 104 n., 105 n., 106 n., 113 n., 114 n., 117 n., 119 n., 120 n., 130 n., 133 n.
- Columbia College Studies*, cited, 156 n.
- Commissariat of Finance: organization, viii, 443-453; *Popular and State Economy in the U.S.S.R.*, cited, 96 n.; *Social Revolution and Finance*, cited, 130 n.
- Commissariat of Food: decrees, 91, 92, 93 n., 97 n.; *Systematic Collection of Decrees and Rulings of the Government Concerning the Food Supply*, cited, 86 n., 91, 92 n., 93 n.
- Commodities (*see* Customs revenues; Excise taxes)
- Communal economy, budget and, 386
- Commune, budgets, pre-war, 33
- Communications (*see* Mails and telegraph)
- Communist Party: all powerful, 149 n.; Eleventh Congress, 149
- Concessions to foreigners, distribution and revenue from, 249-251
- Constitution of the Russian Republic (*see* *Fundamental Laws*)
- Control figures, planned economy and the budget, 336-347
- Courts, and prisons, expenses, 1913 and 1928, 303-304
- Crimea, tobacco production, 204
- Crimean War, imperial budget following, 4
- Crop failures: effect on economic stability, 16-17; pre-war expenditure on relief, 13
- Currency, paper: depreciation, 1917-1922, 80, 94-95; effect on preparation of budget, 123-126; enormous volume, 138-139; reform under NEP, 144, 146, 146 n., 147, 148, 156-159, 309, 314-315
- Currency reforms: under NEP, 144, 146, 146 n., 147-148, 156-159, 309, 314-315; Sokolnikov, author of, viii
- Currency stamps, to replace small coins, 49, 51
- Customs revenues (*see also* Taxation): cessation after October Revolution, 116; under NEP, 144, 211-223, 306; pre-war, 19, 21, 24, 39, 45, 48
- Debts (*see* Public debts)
- Defense, expenditures: 1913 and 1928, 299; 1925 to 1928, 322-324
- Dementiev, G., quoted, 52, 53, 54, 56
- Direct taxes (*see also* Taxation): annual receipts, 1925-1929, 159; under NEP, 144, 159-185; 1913 and 1928 compared, 282-287; pre-war, 21-24, 39; war-time, 43-45, 47-48
- Distributive quota: defined, 77 n., 138; operation, 83-97; resources of peasantry drained by, 138-141; tax in kind substituted for, 96-97, 139-140
- District self-government (*see* Local governments; Zemstvos)
- Don District (*see* Donetsk Basin)
- Donetz Basin, lost to Soviet control till 1920, 78
- Duma: criticism of forest management, 28; establishment of, 1 n.; government concessions to, 12; income tax voted, 285; 1916 taxes, 47

- Dun's index, 278 n.
- Dwelling construction, budget expenditures, 383, 387
- Economic conditions, index numbers, 1917 to 1922, 79
- Economic relations, 1917-1922: disruption of old, 74-78; naturalization of, 79-80
- Ekonomicheskaja Zhizn*, cited, 106 n.
- Education, national expenditures on: comparison, 1913 and 1928, 297-299; imperial budget, 3, 3 n., 4, 5, 5 n., 11, 12; local budgets, 1928, 431-433
- Electrical construction (*see also* Industries): financing under national economy, 357, 366, 369-370, 391
- Encyclopaedia Britannica*, quoted, 5 n.
- England: railroad efficiency, 252; war loans to Russia, 61-62
- Enterprises (*see also* Agriculture; Industries): financing, 366-391; growth of, under national economy, 355-360
- Excess profits tax (*see also* Direct taxes), under NEP, 179-180
- Excise taxes (*see also* Taxation): annual receipts, 1922-1928, 189; commodities and rates, 190-194; under NEP, 144, 186-210; 1913 and 1928 comparison, 287-289; pre-war, 21, 23; war-time increases, 44-45, 47-48
- Expenditures and receipts (*see* Budget)
- Exploitation, defined, 77 n.
- Exports, and imports (*see also* Customs revenues; Foreign trade), 211-223
- Expropriation: defined, 77 n.; operation, 83-97
- Famine (*see* Crop failures)
- February Revolution: 1916 tax program interrupted by, 48, 54; Provisional Government formed, 74 n.; tsardom overthrown, 48 n., 61 n.
- Finance (*see* Financial system; Public finance)
- Finance administration: pre-war, 442-443; in U.S.S.R., 442-453
- Financial system: administration of, U.S.S.R., 442-453; civil war, 74-137; under NEP, 138-273; for national economy, 348-391; pre-war and present compared, 274-308; pre-war Russia, 1-38; prospects of development of U.S.S.R., 454-457; war-time, 38-73
- Finland, 24, 278
- First All-Russian Conference of Financial Workers, resolution quoted, 136-137
- Fisher, H. H., negotiation with U.S.S.R. for co-operation in study of Soviet policy, vi
- Five-Year Plan: the background of, 333-347; launched, 348 n.; and public finance, viii, 76 n., 275 n.
- Food supplies (*see also* Agricultural produce): expropriation, 83-97; gratuitous distribution decreed, 1921, 81, 81 n.; state monopoly abolished, 96-97; state monopoly decreed, 85-86
- Foreign credits (*see* Loans, war-time)
- Foreign debts, unconditionally canceled, 1917, 119
- Foreign powers, participation in Russian war financing, 72

- Foreign relations, expenditures, 1913 and 1928, 302-303
- Foreign trade, and customs duties (*see also* Customs revenues), under Soviet state, 211-223
- Forests: financing under national economy, 356; nationalized, 1917, 101-109; revenues from, 1885, 1900, and 1913, 25, 27-28; revenues from, in Soviet state, 240-244, 291
- France: railroad development compared to Russian, 17, 252; war expenditures, 34; war loans to Russia, 61, 62
- Free treasury fund (*see* Budget, pre-war)
- Fundamental Laws*: pre-war, 47; Russian Republic, 98, 120-121, 131
- Gazette of the Temporary Government of the Workers and Peasants*: decree on canceled interest-bearing bonds, 119 n.; decree on land, quoted, 102, 102 n., 103; nationalization of industry, quoted, 104 n.
- Geneva, 185
- Germany: concessions to, 250; empire government compared to Soviet Union, 394 n.; railway development compared to Russian, 17-18, 252
- Glavkism*, cited, 109 n.
- Gold: confiscation, 118, 118 n., 119; government monopoly declared, 118
- Gold reserve, war-time, 59
- Gold standard, introduced, 5
- Golder, Professor Frank A.: negotiation with Soviet government for co-operation in study of Soviet policy, vi, viii; organization in United States for study of Soviet policy led by, v-vi
- Golovanov, S. A., quoted, 127-128
- Gordin, A. M., 276, 309, 392, 413
- Gordon, A. S., 348
- Gosplan (*see* State Planning Office)
- Grain: consumption per person, 1919-1927, 87; state collection, 1917-1921, 93
- Grain loans, under NEP, 152-154, 261, 262
- Hague, The, 185
- Harriman Manganese Mines, 251
- Head-tax, 18-19, 23
- Heroic Period of Great Russian Revolution*, cited, 109 n.
- Hoover War Library: Russian agricultural economist at, vi
- Hutchinson, Professor Lincoln, editor's preface, v-viii; negotiation with Soviet government for co-operation in study of Soviet policy, vi
- Imperial court, expenditures of, 3, 4
- Imperial Russia (*see* Russia)
- Imports, and exports (*see also* Customs revenues; Foreign trade), 211-223
- Income tax (*see also* Direct taxes): class distribution, 173-174, 283; comparison with United States, 172, 172 n., 173, 173 n.; mentioned in 1916, 22, 38, 47, 285; rates, 172; Soviet Union, 115-116, 168-174
- Index numbers: economic conditions, 1917 to 1922, 79; fixed and free prices, 1917-1921, 81; relative to prices, 1916 to 1922, 80, 80 n.
- India, crop failures compared to Russian, 16

- Indirect taxes (*see also* Taxation): annual receipts, 1925–1929, 189; excises, 186–223; under NEP, 144, 185–223; 1913 and 1928 comparison, 282–290; pre-war, 20–24, 39; war-time, 43–45
- Industrialization (*see also* Industries), under national economy, 348, 391
- Industries (*see also* Undertakings): defined, 139 n.; financing under national economy, 355–391; low status, 1921, 139; measures of nationalization, 104 n., 105 n., 106 n.; nationalization, 1917, 101–109; NEP and, 141, 147, 223–233, 292; productivity in 1912, 1919, 1920, 108
- Industry, heavy (*see also* Industries): defined, 139 n., 356 n.; progress in, 356
- Inheritance tax (*see also* Direct taxes): and gifts, under NEP, 182; increase proposed, 1916, 47, 47 n., 55, 55 n.; rates, 183
- Institute of Economic Investigations of People's Commissariat of Finance: calculates index of fixed prices, 81; income tax comparisons, 171, 173 n.; transactions, cited, 130 n.
- Italy, war loans to Russia, 61, 62
- Izvestia*, cited, 81 n., 83 n., 84 n., 85 n., 87 n., 88 n., 90 n., 91 n., 96 n., 97 n., 99 n., 100 n., 114 n., 119 n., 120 n., 133 n.
- Japan: concessions to, 250; cost of Japanese war, 34, 35, 67; effect of Japanese war on budget, 4–6, 8, 10, 12; textile excise, 206; war loans to Russia, 61, 62
- Jéze, Gaston, French writer, 34
- Kerensky government (*see* Provisional Government)
- Kritzman, L., *Heroic Period of Great Russian Revolution*, cited, 109 n.
- Kuban, 204
- Kulbyshev, V. P.; *Industry for the Ten Years, 1917–1927*, cited, 108 n.
- Kursk magnetic anomaly, 366, 366 n.
- Labor, tax on (*see* Labor duties)
- Labor duties: burden on peasants, 101; general labor tax, 98–109; replaced by money tax, 1922, 101
- Land, nationalization, 102–109
- Land settlement and agriculture, pre-war expenditure, 11–12
- Landlords, rights abolished, 102
- Latvia, 278
- Lena Goldfields, 250
- Lenin: announcement on nationalization of industry, 1917, 104 n.; foreign loans refused, 185; tax fundamentals, 162
- License tax (*see* Taxation; Trade tax)
- Lithuania, 278
- Loan expenditures, 1913 and 1928, 300–301
- Loans, Soviet state: foreign loans refused, 185; revenues from, 261–273, 292–293
- Loans, war-time: credit operations, 60–73, 112; domestic loans, 1914–1917, 60–73; foreign loans, 49, 60–73; summary of war loans, 60–62; Treasury certificates and notes, 62–66; war bond issues, 66–73
- Local governments, pre-war (*see also* Municipalities; Zemstvos): finances, 29–33; outline of form, 29 n.

- Local governments, Soviet state: development of budgets, 413–441; finances, 384–390
- Lottery loans (*see also* Loans), ix, 262–273
- Mails and telegraph: financing under national economy, 378–382; pre-war expenditure, 11; receipts, 1885, 1900, 1913, 25; revenue under Soviet state, 256–260, 290–291, 329–330
- Manufactures (*see also* Industries): distribution under Soviet state, 87–89; quantities, 1912, 1919, 1920, 108
- Marx, teachings of, 77 n., 90 n., 129 n.
- Metals (*see* Underground wealth)
- Military communism (*see* Civil war)
- Mines (*see also* Underground wealth), 1913 receipts, 28
- Ministries, pre-war: established, 1802, 1–2; expenditures of, 11
- Money (*see also* Currency): chervonets, 149–150, 157–159; re-established under NEP, 142; Treasury certificates, 158
- Money Circulation and Credit in Russia and Abroad*, cited, 130 n.
- Money tax, civil war (*see also* Taxation): capital levy, 114; customs and excise, 116; extraordinary taxes, confiscation, 113; income, 115–116; replaced by distributive quota, 117–118
- Money tax, under NEP (*see also* Taxation): direct and indirect taxes levied, 144–159; re-established, 143
- Monopolies, government (*see also* Alcohol), 39
- Moulton (*see* Pasvol'sky and Moulton)
- Municipal self-government (*see also* Local governments, pre-war), introduced, 29
- Municipalities, pre-war (*see also* Local government, pre-war): bonded indebtedness in 1913, 31, 32; expenditures in 1912, 31; revenues in 1912, 30
- Napoleon, retreat from Moscow, 1 n., 3, 44
- Napoleonic wars, effect on Russian development, 3
- National debt, pre-war: expenditure, 3–13; reaches enormous proportions in 1914, 13–14
- National defense, pre-war expenditures (*see also* Defense), 3–9, 299
- National economy (*see also* Popular economy), financing, 1922 to 1928, 309–311, 330–332
- National income: budget and, 1924–1928, 311–312; 1913, 276; taxes and, 1913 and 1928, 281–282
- Nationalization: defined, 76 n.; property and undertakings, 101–109
- Naturalization: defined, 76 n.; economic relations, 79–83
- NEP (*see* New Economic Policy)
- "Nepmen," new bourgeoisie under NEP, 169
- New Economic Policy: banks, 235–240; currency reforms and taxation, 139–223; development and results, 1921–1928, 138–273; domestic and foreign trade revenue, 231–235; forests, 240–244; NEP outlined, 75 n.–76 n.; proclaimed in 1921, 139; public lands and

- rentals, 246-249; receipts from loans, 261-273; re-establishes money market relations, 131, 137; revenue from concessions, 249-251; revenue from state properties, 223-230; revenue from transportation, mails, and telegraph, 251-260; substitutes tax for distributive quota, 139; underground wealth, 245-246
- Nicholas II, 44, 74
- Nihilism, spread of, 1 n.
- October Revolution, overthrew Provisional Government and established Soviet rule, 54, 74, 74 n., 102
- Paper money (*see also* Currency): declining purchasing power, 1917-1920, 110, 110 n., 111; *Paper Money during the Proletarian Dictatorship*, quoted, 111; source of state revenue, 109-111
- Pasvolsky and Moulton, *The Russian State Debt and the Re-establishment of Russia*, cited, 71 n.
- Pekin agreement, 250
- People's Bank of the Russian Republic, 119
- People's Commissariat of Finance (*see* Commissariat of Finance)
- People's Commissariat of Food (*see* Commissariat of Food)
- People's Economy of the U.S.S.R. in Figures, The*, cited, 93 n.
- Persia, expenditures in, 8
- Pervushin, Professor S. A., article cited, 82 n.
- Peter the Great, Fund of, 307-308
- Petroleum (*see also* Excise taxes; Industries; Underground wealth), production and excises, 208-210, 245
- Petroleum excise (*see* Excise taxes)
- Planned economy, the budget in, 333-347
- Planning Problems of Local Economy and Budget*, cited, 425 n.
- Plehn, Professor Carl C., viii, ix
- Poland: lost to Russia, 278; war with Soviet state, 74 n.
- Polish provinces, excepted from increased tax in 1914, 43
- Popov, P. I., *Industry in the Russian Republic, 1912-1922*, cited, 106 n., 107 n.
- Popular economy (*see also* National economy): aid to agriculture, 355, 361-366; budget financing of, 348-391; defined, 349 n., 336; expenditures, 296-297; national income and, 352
- Popular and State Economy in the U.S.S.R.*, cited, 96 n.
- Preobrazhensky, F., *Paper Money during the Proletarian Dictatorship*, 111
- Price index numbers, 1914-1918, table, 36
- Prices: divergence between fixed and free-market prices, 1917-1922, 80, 81; fixed prices during civil war, 80, 80 n., 81-83
- Prisons (*see* Courts)
- Private ownership (*see also* Nationalization), abolished, 101-109
- Private securities, public debts and, canceled, 1917, 119-120
- Prohibition (*see also* Alcohol; Vodka): declared, 40; unsuccessful in Soviet state, 195
- Prokopovich, S. N., *A Tentative Calculation of National Income of Fifty Gubernias of European Russia in 1900-1913*, cited, 276, 276 n.

- Property, and undertakings (*see also* Nationalization), 101-109
- Provinces (*see* Local governments, pre-war)
- Provisional Government: budget of 1917, 53-56; credit operations, 72-73, 112; overthrown, 74, 74 n.
- Public debts and private securities canceled, 1917, 119-120
- Public finance (*see also* Financial system): civil war, 74-137; NEP, 138-273; pre-war, 1-38; war-time, 38-73
- Railroads: condition in 1914, 27, 28; expenditures, 1922 to 1928, 326-329; financing under national economy, 378-381; income during war, 41, 44; investments compared with other countries, 17-18; nationalization, 104; pre-war expenditure, 11, 12; receipts, 1885, 1900, 1913, 25-27; revenues, 1913 and 1928, 290; revenues in Soviet state, 251-259
- Railway construction, effect on economic life and national expenditures, 3, 4-5
- Railways (*see* Railroads)
- Receipts and expenditures (*see* Budget)
- Red Army, huge outlays required, 78, 82, 138
- Red Revolution (*see* October Revolution)
- "Reds," civil war with "Whites," 74 n.
- Reference Book on Prices*, cited, 81 n.
- Reingold, I., 138, 442
- Rent tax (*see also* Direct taxes), under NEP, 180-182
- Reports of the Institute of Economic Investigations*, 82 n.
- Revolution (*see* February Revolution; October Revolution; etc.)
- Revolution of 1905, 2, 5, 19
- Russia, Imperial: creation of a Great Power through Napoleonic wars, 3; pre-war financial system, 1-73; slow economic development owing to geographic situation, 17; state finances during World War, 33-73
- Russian Information and Review*, cited, 144 n.
- Russian Republic (*see* U.S.S.R.): declarations regarding labor, 1918, 98; extent, 275; *Fundamental Laws*, published 1918, 120; proclaimed, 1917, 74 n., 75 n.; public lands, 247
- Russian securities, pre-war, 15, 16
- Russian Socialist Federal Soviet Republic (*see* Russian Republic; U.S.S.R.)
- Russo-Japanese War (*see* Japan, war with)
- Salt tax, 18-19
- Savings banks: distribution of war bonds, 69-70; payments stopped, deposits confiscated, 1920, 118
- Seaport construction, pre-war expenditure, 13
- Serfdom, abolished, 1 n., 2
- Shipbuilding, budget appropriation, 381
- Shmelev, K., 74, 111 n., 277
- Siberia: cut off from Soviet control till 1920, 78; sown area, 1918-1920, 96
- Single tax (*see* Agricultural tax)
- Social-cultural expenditures (*see also* Education), 1913, 1928, 297-298, 325-326

- Social Revolution and Finance*, cited, 130 n.
- Sokolnikov, Gregory: and associates, 2 n., 321 n., 333, 454; author of currency reforms, viii; conversation with Lenin, 185; credited with organization of State Bank, viii; head of Commissariat of Finance, viii, 148; Soviet ambassador at London, vii
- Solovei, G., 274, 279 n.
- Soviet ambassador at London (see Sokolnikov)
- Soviet government (see also Russian Republic; U.S.S.R.): attitude toward foreign study of policy, v-ix; deprived of loans as state support, 112; financial policy during civil war, 74-137; made peace with Baltic states, 74 n.; made peace with Central European Powers, 74 n.; set up, 74, 74 n.
- Soviet of People's Commissars: abolishes private trade, 83-97; concerning canceled interest-bearing bonds, 119; decrees gratuitous distribution of commodities, 81, 81 n.; decrees state monopoly of agricultural produce, 83-86; nationalization measures, 104 n., 105 n., 106 n.; organization described, 143 n.; punishment of idling, 99 n.; regulation of taxes, 132
- Stamp taxes (see also Direct taxes; Taxation), under NEP, 183-185
- State Bank, U.S.S.R.: created, 76 n.; finance administration and, 450-453; issues chervonets, 149-150; operation and revenue, 236-240; Sokolnikov credited with organization, viii
- State Bank, war-time: condition, 1917, 51-59; *Report*, quoted, 68; Treasury notes and certificates, 64-65; war bond distribution, 70-71
- State Comptroller: criticizes government operations, 28; pre-war expenditure, 11; reports during war years, 48, 49
- State debt, growth in Soviet state, 271
- State debts (see Public debts)
- State expenditures (see also Budget): analysis, 1913 and 1928, 294-307; 1903 and 1913, 11; 1923 to 1928, 319
- State Financing of Industry in 1918-1924*, cited, 107 n.
- State Planning Office: control figures for budget, 277, 335-345; protocols, cited, 335 n., 337 n., 340 n.; report quoted, 335-337, 341, 345
- State properties and undertakings, revenue, 223-233, 310
- Statesman's Yearbook*, quoted, 29 n.
- Statistics, Soviet Union, 1923 and 1928, 31
- Statutes of the Russian Empire, The*, quoted on taxation, 18
- Stern, A. B., *State Financing of Industry in 1918-1924*, cited, 107 n.
- Sugar excise (see also Excise taxes), 23, 24, 44, 199-203
- Supreme Economic Council, Moscow: in charge of management of industry, 105, 109; *Collection of Decrees and Rulings on National Economy*, cited, 103 n., 106 n.; declares government monopoly in gold, 118; *Industry for the Ten Years, 1917-1927*, cited, 108 n.; *Reference Book on Prices*, cited, 81 n.



- Tadzhik S.S.R., added to Russian Union, 75 n., 275 n.
- Taxation, civil war (*see also* Budget): capital levy and confiscation of precious metals, 112-114, 131; distributive quota and expropriation, 83-97; in kind, 96-97; labor duties, 98-109; local soviet, 131-137; peasant burdens, 94-95, 101; replaced by compulsory collection of produce, 89-90, 135-137
- Taxation, under NEP (*see also* Budget): agricultural tax and grain loans, 152-159; allied republics, 392-411; direct and indirect, 144-145, 159-223; local budgets, 413-457; money tax re-established, 143, 309; national economy, 352-353; 1928 and 1913 comparisons, 279-290; reduced tax in kind replaces distributive quota, 139-140; tax in kind, disadvantages, 151-152
- Taxation, pre-war (*see also* Budget): 1885 and 1914, 18-29; merciless peasant, 16; paying and exempt classes, *The Statutes of the Russian Empire*, quoted, 18; revenue, 1811, 1885-1913, 19-21; revenues of 1913 and 1928 compared, 279-290
- Taxation, war-time (*see also* Budget): direct taxes increased, 43; financial program, 1915, 45; income and inheritance tax proposals, 47; 1916 proposals, 46-48
- Taxes (*see* Taxation)
- Tea excise (*see also* Excise taxes), 202-203
- Temporary Regulations*, cited, 415
- Tentative Calculation of the National Income of Fifty Gubernias of European Russia in 1900-1913*, A, cited, 276 n.
- Textiles (*see also* Excise taxes; Industries), 205-208
- Third Congress of Communist International, 130 n.
- Timber (*see also* Forests), output, 1918-1923, 242
- Tobacco (*see also* Excise taxes), 23, 204-205
- Totals of Ten Years' Soviet Rule, 1917-1927*, cited, 79 n., 87 n., 93 n.
- Trade, domestic and foreign: development under NEP, 175-178, 231-235; financing under national economy, 382-383; nationalized, 101-109
- Trade license tax (*see* Taxation; Trade tax)
- Trade tax (*see also* Direct taxes): licenses issued, 1923-1926, 176; under NEP, 175-179; rates, 178
- Transcaucasian S.F.S.R. (*see also* Allied republics), joins Russian Union, 75 n., 275, 393
- Transportation (*see* Railroads)
- Trans-Volga, cut off from Soviet control till 1919, 78
- Treasury certificates (*see also* Loans), 51, 58, 60, 61, 62-64
- Treasury notes (*see also* Loans): amounts, 1914-1917, 60-66; Soviet state, 269-273
- Trusts, state (*see also* Industries): excise taxes, 186-210; under NEP, 141-142
- Tsar (*see* Nicholas II)
- Tsentsrospirt, Central Office of State Alcohol Monopoly, 198
- Tsushima Strait, naval battle, 35
- Turkestan, cut off from Soviet control till 1920, 78
- Turkey, war of 1877, 4, 66

- Turkomanian S.S.R. (*see also* Allied republics), added to Russian Union, 75 n., 247, 275, 393, 397
- U.S.S.R. (*see* Russian Republic; Soviet government; Union of Socialist Soviet Republics)
- Ukraine, cut off from Soviet control till 1920, 78, 131
- Ukrainian S.S.R. (*see also* Allied republics), 75 n., 96, 247, 275, 393
- Underground wealth, revenues in Soviet state, 245-246
- Undertakings, nationalization, of 1917, 101-109
- Union of Socialist Soviet Republics (*see also* Russian Republic; Soviet government; U.S.S.R.), formed, 74 n., 393
- United States: concessions to, 250; railroads compared with Russian, 17-18, 27 n., 252
- University of California, viii, 240 n.
- "Upon New Trails," *Na novykh putiakh*, cited, 106 n., 127 n., 128 n.
- Ural districts, cut off from Soviet control, 1918-1919, 78
- Uzbekian S.S.R. (*see also* Allied republics), added to Russian Union, 75 n., 247, 275, 393, 397
- Vodka tax (*see also* Alcohol; Excise taxes): pre-war revenues, 18-24, 29, 39; revenues cease with prohibition in 1914, 40; under Soviet state, 194-199
- Wainstein, A. L., *The Taxation of and Payments from Peasants in Pre-War and in Revolutionary Years*, cited, 87, 88 n., 101, 101 n.
- War Fund, 34, 37, 38, 49-57
- War tax, single payment proposed in 1916, 48, 48 n.
- Weimar Constitution, 394 n.
- Wheat and rye, exports and costs, 233-234
- White Russian S.S.R. (*see also* Allied republics), joins Russian Union, 75 n., 131, 275, 393
- "Whites," refuse to accept Bolshevik dictatorship, 74 n.
- Witte, S. J., Imperial Minister of Finance, 315
- Wood, *History of Taxation in Vermont*, cited, 156 n.
- World War: condition of railways, 27; Russian financial structure at outbreak, 1, 8; state financing during, 33-73
- Wrangel, General, defeated, 74 n.
- Zemstvos: established, 1 n., 29 n., 30; revenues and expenditures, 1913, 32-33; taxes, 131
- Ziperowitz, G., *Glavkism*, cited, 109 n.
- Varneck, Elena, translator, iii
- Vestnik Finansov*, cited, 69 n., 70 n., 277 n.









